

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 16 June 2020¹

MONGOLIA

ERDENET CLIMATE RESILIENCE PROJECT

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

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ABBREVIATIONS / CURRENCY CONVERSIONS

ADB	Asian Development Bank
CDP	Corporate Development Programme
DD	Due Diligence
DEIA	Detailed Environmental Impact Assessment
ECEPP	EBRD Client E-procurement Portal
EIRR	Economic Internal Rate of Return
EPG	Economics, Policy and Governance
E&S	Environmental and Social
ESAP	Environmental and Social Action Plan
ESD	Environmental and Sustainability Department
ESIA	Environmental and Social Impact Assessment
ESMMP	Environmental and Social Management and Monitoring Plan
ESP	Environmental and Social Policy
EU AIF	European Union Asian Investment Facility
EWHDN	Erdenet Water and Heat Distribution Network
FA	Framework Agreement
GDP	Gross Domestic Product
GET	Green Economy Transition
GHG	Greenhouse Gas
GrCF	Green Cities Framework
HR	Human Resource
IFI	International Financial Institution
IMF	International Monetary Fund
IPPF	Infrastructure Project Preparation Facility
NPV	Net Present Value
NRW	Non-Revenue Water
NTS	Non-Technical Summary
O&M	Operation and Maintenance
PD	Procurement Department
PIU	Project Implementation Unit
PIS	Project Implementation Support
PP&R	EBRD's Procurement Policies and Rules
PTI	Portfolio Transition Impact
SEP	Stakeholder Engagement Plan
SPI	Strategic Performance Indicator
SSF	Shareholder Special Fund
TI	Transition Impact
TIMS	Transition Impact Monitoring System
TC	Technical Co-operation
UNDRR	United Nations Office for Disaster Risk Reduction
UNFCCC	United Nations Framework Convention on Climate Change
VAT	Value Added Tax
VSL	Value of Statistical Life

CURRENCY CONVERSION

(as of 12.03.2020)

EUR 1 = USD 1.12

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Mongolia (the “Borrower”) for the benefit of the Province of Orkhon (“Province” or “Orkhon”) are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan to Mongolia in the amount of up to USD 7 million (EUR 6.26 million equivalent) for the benefit of the Orkhon Province (the “Project”).

The operation will enable the Province to rehabilitate and expand the flood protection infrastructure and water networks in Erdenet (the “City”). The Project’s expected transition impact is associated with the “Green quality” through introducing a sustainable approach to environmental asset management and building climate change resilience. It is also associated with the “Well-governed” quality through improvements to financial management and operational processes, and development and adoption of a Public Service Contract (“PSC”).

The Project is 100 per cent GET-eligible as the proposed capital investments will directly enhance the climate resilience of the City’s population and infrastructure through more efficient water use and reducing the impact of flooding events, thus responding to the climate vulnerabilities experienced in the Project’s location.

The EBRD Shareholder Special Fund (the “SSF”), through the Infrastructure Project Preparation Facility (“IPPF”), provided pre-signing technical cooperation (“TC”) support for the Project’s preparation. Post-signing TCs supporting the Project’s implementation are proposed to be financed from the SSF Work Plan 2019-2020.

I am satisfied that the operation is consistent with the Bank’s Strategy for Mongolia, the Municipal and Environmental Infrastructure (“MEI”) Sector Strategy, the Green Economy Transition (“GET”) approach and with the Agreement Establishing the Bank.

I recommend that the Board approve, on a no-objection basis, the proposed loan and the SSF grants, substantially on the terms of the attached Report.

Suma Chakrabarti

BOARD DECISION SHEET

MONGOLIA – ERDENET CLIMATE RESILIENCE PROJECT - DTM 50533	
Transaction / Board Decision	Board approval ² is sought for a sovereign loan of up to USD 7 million (EUR 6.26 million) in favour of Mongolia for the benefit of Province of Orkhon (the “Province” or the “Orkhon”). It will finance the construction of climate resilience improvements in Orkhon, in the form of flood protection measures and improvements to the water supply system. Board approval is also sought for the use of SSF funds for technical cooperation in the amount of EUR 1 million. The Loan is expected to be co-financed by a capital grant from the EU Asia Investment Facility (“EU AIF”) in the amount of up to USD 7 million (EUR 6.26 million).
Client	The Borrower is Mongolia. The Project will be implemented by the Province of Orkhon and by the municipal company that it owns, Erdenet Water and Heat Distribution Network (the “Company” or the “EWHDN”), as beneficiary of the Project’s water component.
Main Elements of the Proposal	<p><u>Transition impact</u></p> <p>Primary Quality – Green. The Project is expected to enhance resilience to climate change in the region through increased capacity to cope with flood risks and improved water supply efficiency in the context of increasing water stress;</p> <p>Secondary Quality – Well-governed. The Project will focus on improvements to financial management and operational processes, and will facilitate the development and adoption of a Public Service Contract (“PSC”).</p> <p><u>Additionality</u></p> <p>The Bank will provide long-term financing, which is not presently available from local commercial banks. [REDACTED]</p> <p><u>Sound banking:</u></p> <p>The Project is structured as a sovereign loan.</p>
Key Risks	<p><u>Borrower’s creditworthiness</u></p> <p>Mongolia’s public debt has been decreasing, standing at 60 per cent of GDP at the end of 2019. In 2019, Fitch, S&P and Moody’s confirmed the country’s ‘B’ credit rating with a “stable” outlook, and ‘B3’ with a “stable” outlook.</p> <p><u>Project implementation risk</u></p> <p>Implementation risk will be mitigated by engaging an experienced Project Implementation Support (“PIS”) consultant.</p> <p><u>FX risk</u></p> <p>The loan is provided on a sovereign basis and the FX risk is not significant for its proposed exposure.</p>
Strategic Fit Summary	The Project will promote climate resilience in line with the Bank’s MEI Sector Strategy and the Strategy for Mongolia. The Project fully supports the Bank’s GET Approach.

² Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	A sovereign loan of up to USD 7 million (EUR 6.26 million) to Mongolia for the benefit of the Province of Orkhon.
Existing Exposure	Sovereign exposure to Mongolia via the portfolio of three projects [REDACTED].
Maturity / Exit / Repayment	15 year maturity [REDACTED].
AMI eligible financing	EU AIF investment grant in the amount of USD 7 million (EUR 6.26 million).
Use of Proceeds	<p>The Loan and capital grant proceeds will be used to (i) rehabilitate and construct flood protection dams and channels; (ii) rehabilitate and expand the water network to Erdenet’s ger (yurt) area, the Province’s biggest town, and (iii) finance the front-end fee and the Project Implementation Unit’s (PIU) operating and administrative costs.</p> <p>Loan proceeds will be made available to Mongolia against documentation confirming use of proceeds. A special deposit account will also be set up. Progress reports will be submitted on a semi-annual basis. The Project implementation procurement plan is presented in Annex 3.</p>
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • Mongolia, represented by the Ministry of Finance, as the Borrower; • Province of Orkhon and the Company as the implementing agencies; • EU Asian Investment Facility (or another donor) as a co-financier.
Conditions to subscription / disbursement	<p>For the Loan Agreement</p> <p><i>CPs to Effectiveness:</i></p> <ul style="list-style-type: none"> • Project Agreement with the Province; • Co-Financing Grant Agreement between the Borrower and the EBRD. <p><i>CPs to first drawdown</i> [REDACTED]</p>
Key Covenants	<p>For the Borrower:</p> <ul style="list-style-type: none"> • Procurement under the Project to be carried out in accordance with the Bank’s PP&R; • Cause the Province to perform its obligations under the Project Agreement. <p>For the Province:</p> <ul style="list-style-type: none"> • Implement the ESAP; • Implement the Project in line with the Project Agreement; • [REDACTED]
Security / Guarantees	Sovereign loan
Other material agreements	<ul style="list-style-type: none"> • Project Agreement with the Province; • Subsidiary Agreement between the Borrower and the Province.
Associated Donor Funded TC and co-investment grants/concessional finance	<p>A. Technical Cooperation (TC)</p> <p><u>Pre-signing TCs:</u></p> <p>TC 1: Feasibility Study. The assignment’s cost is EUR 314,900, financed by the Infrastructure Project Preparation Facility (“IPPF”).</p>

	<p><u>Post signing TCs:</u></p> <p>TC 2: Corporate Development Programme to support operational and financial improvements within the Company, develop a PSC and assist in setting the tariff-related conditions. In addition, the assignment will include assistance to the Province in developing arrangements to allow the Province to properly maintain the flood protection barrier and other municipal infrastructure built under the Project (e.g. through preparing a long-term maintenance contract tender). The assignment’s cost is estimated at up to EUR 350,000, proposed for financing by the SSF.</p> <p>TC 3: Project Implementation Support to assist in preparing detailed designs, develop tenders and ensure appropriate contracting and supervision, plus implementing an Environmental and Social Action Plan (“ESAP”). The assignment’s cost is estimated at up to EUR 650,000, proposed for financing by the SSF.</p> <p>Reimbursement: The above assignments (totalling EUR 1.3 million) will be non-reimbursable transactional TCs required to evaluate the investment and assist the Client in project implementation and capacity building.</p> <p>Cost sharing: The Client will be responsible for paying all VAT and other indirect taxes that are applied to the post-signing TC assignments as a parallel cost sharing contribution to the Project (VAT is levied at 10 per cent in Mongolia). Additionally, an “in-kind” contribution will be provided in the form of office space, communication connections, etc. for the consultants to carry out their work, presumed to amount to 3 per cent of the total TC budget.</p> <p>B. Co-investment grants / Concessional Finance (Non-TC)</p> <p>The Project is expected to be co-financed by an investment Grant of up to EUR 6.26 million (USD 7 million) from EU AIF, subject to the EU AIF Board approval. The investment grant is justified by IMF concessionality requirements, a strong Transition Impact and economic benefits that include significant improvements to climate resilience and positive environmental impacts, such as CO2 reductions.</p>
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[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Mongolia is vulnerable to the impacts of climate change. As indicated by Mongolia's Second National Communication to the UNFCCC (2010) and Intended Nationally Determined Contribution (INDC, 2015), in addition to shifting temperature patterns over coming decades, Mongolia will also be affected by shifting precipitation patterns. These include increasingly varied summer precipitation and milder, wetter winters, with up to a 25 per cent increase in precipitation by 2050. In addition, there is an increased risk of extreme events, such as flash floods and landslides, driven by greater frequency and intensity of heavy rainfall events and snowmelt. Furthermore, the country is forecast to experience increased water stress, including drought and risk of desertification by 2050, driven by temperature increases, higher evapotranspiration, and increasingly varied precipitation patterns and river flows. In response to such climate vulnerability, the Priority Investment Programme ("PIP") includes the Province's most critical investments in flood protection and water infrastructure, as identified by the feasibility study consultant and agreed upon with the Province.

Due to the Province's geographic position and low elevation, flooding has long been an outstanding issue that may become more acute with a forecast increase in rainfall intensity by 20 per cent by 2050. However, [REDACTED] approximately 15,000 households in the ger area are plagued by flood risk every year. Under the United Nations Office for Disaster Risk Reduction ("UNDRR"), Erdenet has joined the "Disaster Resilient Urban Communities" initiative. As part of the programme, minor capital investments were made at the household level, but the majority of the programme consisted of soft investment, such as educational training. The EBRD project is in line with this programme, as it helps make Erdenet more climate resilient by focusing on grand scale physical infrastructure. The Project will alleviate the risk of flooding for 15,000 people. The investments will avoid, or at least reduce, human deaths from flooding and reduce damage to housing and other buildings, as well mitigate the loss of domestic animals.

The Project will also improve water availability in the face of growing water stress. It will do so by reducing water loss from the City's water supply system [REDACTED] through rehabilitating and reconfiguring the water distribution network. It is also expected to increase the number of people connected to the central water supply [REDACTED] and reduce annual water loss volume [REDACTED].

The Project aligns with the country's priorities. It was approved by the Cabinet as one of several projects to be implemented under the USD 300 million Framework Agreement between the EBRD and Mongolia, signed on 18 September 2019. The Project is also important for the post COVID recovery.

The Project aligns with the Bank's Strategy for Mongolia, which calls for strengthening the country's climate resilience. It will contribute to the SDGs under the

UN’s 2030 Agenda, specifically to Goal 13.1 “Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries” and Goal 1.5 “By 2030 build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate related extreme events and other economic, social and environmental shocks and disasters”.

The Project also complies with the MEI Sector Strategy. This articulates the importance of providing access to enhanced infrastructure via promoting projects with strong climate resilience focus in urban and rural settings: coastal/river flood-defence protection. The Project will also contribute to improving the resilience of the region in Mongolia to the impacts of climate change, in line with the Green Economy Transition (GET) approach. The Project is 100 per cent GET.

The recent outbreak of the COVID-19 has caused disruption to trade revenue, especially since Mongolia’s economy greatly dependent on export to China. The Bank of Mongolia forecasts that economic growth could fall to 2.3 per cent in 2020 if the COVID-19 situation extends through the end of June. [REDACTED]

1.2 TRANSITION IMPACT

Primary Quality: Green

Obj. No.	Objective	Details
1.1	<i>The percentage of EBRD use of proceeds allocated to the Project that qualifies as GET is 50% or higher.</i>	The share of GET-compliant EBRD proceeds is 100 per cent. The Project will build resilience to climate change by financing improvements to flood protection and water infrastructure in Erdenet, Orkhon province.
1.2	<i>The project introduces significant innovation in green products or technologies, fulfilling the following three conditions: a) it reduces the environmental impact of a production process or it introduces a new environmentally friendly product to the market; b) it is novel (first or second of its kind) in the relevant market; and c) it is replicable by other market participants.</i>	The Project’s flood protection component consists of flood storage with flood conveyance; the new flood retention basins upstream of the gers incorporate ‘hydro-brakes’ to control the release of flood waters into a downstream conveyance system. This is a new technological approach to Orkhon Province, which also carries a demonstration effect. Hydro-brakes are specially engineered devices which precisely balance flow rates to regulate flood water. They are much more capable of handling sediment and debris than the conventional flow control devices widely used in Mongolia. In addition, their unique characteristics reduce upstream storage volume requirements, lowering overall project costs. They also require minimal maintenance.

Secondary Quality: Well-Governed

Obj. No.	Objective	Details
2.1	<i>A well-defined public service contract in line with international practices will be introduced (not a revision to an existing PSC) as one of the first ten in the country.</i>	The proposed Project, with support from the TC Consultants, introduces a PSC with service quality and performance benchmarks that will establish a contractual relationship between Orkhon Province and EWHDN, a municipal utility company, for water service in the City.
2.2	<i>A cost recovery tariff methodology is introduced where such a methodology does not exist</i>	A covenant is introduced to ensure that the Company's revenue is sufficient to cover all operating and maintenance costs. Where tariff revenue is not sufficient, the Province will provide subsidies [REDACTED]. This will support user tariff regulation to improve the infrastructure's financial sustainability.

Delivery Risk: Achievement of the TI objectives will require strong support from the client for institutional improvements and improved contractual arrangements. [REDACTED] The risks will be partially mitigated by the TI covenants in legal agreements, and Province level support for capacity building, project implementation and procurement support. The main risk associated with implementation will be mitigated through retaining a PIS consultant to supervise procurement and civil works.

1.3 ADDITIONALITY

Identified triggers	Description
No triggers identified.	n/a

Additionality sources	Evidence of additionality sources
Financing Structure - The EBRD offers tenor above the market average which is necessary to structure the Project.	The EBRD will provide a loan with a 15-year tenor, which is not currently available from commercial banks.
Policy, sector, institutional, or regulatory change - the EBRD's involvement in a project is considered additional when it is designed to trigger a change in the policy , sector, institutional or regulatory framework, or it enhance practices at the sector or country level (e.g., an introduction of cost-reflective pricing of energy, water etc.).	Implementing an ESAP will enable the Company to efficiently manage environmental and social issues.
Standard-setting: helping projects and clients achieve higher standards. The client seeks/makes	The EBRD PP&R will be applied.

use of the EBRD's expertise on the best international procurement standards .	
Knowledge, innovation, and capacity building – The EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the Project's objectives, including support to strengthen the client's capacity (e.g. insufficiently experienced PE fund managers or clients unexperienced in complex PPP-type arrangements).	[REDACTED] The technology used in the Project's flood barrier component is novel as it is more efficient than the conventional flow control devices widely used in Mongolia. In addition, their unique characteristics reduce upstream storage volume requirements, lowering overall project costs. They require minimal maintenance.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
<i>Sovereign Risk</i>	Medium/ High	Mongolia's economic performance has improved in recent years in line with increased coal and copper prices (Mongolia's main exports), high GDP growth and the Debt to GDP ratio falling thanks to the IMF's Economic Recovery Programme. These factors have contributed to increased government revenue and improved repayment capacity. Mongolia's GDP growth is expected to slow down in 2020 to 2.3 per cent due to a COVID-19 related economic slowdown.
Political risk	Medium/ High	Mongolia will be holding parliamentary elections in 2020. [REDACTED] However, the Project is included in the list of priority projects which was approved by the Cabinet.
Construction risk	High/ Medium	Application of the Bank's PP&R will ensure that experienced and creditworthy contractors are selected to perform the works and that balanced construction contracts are signed between parties. A supervision engineer, funded from the loan, will further mitigate construction risks.
Implementation risk	Medium/ High	A PIU will be established in the Province, assisted by the PIS consultant. As part of the investment programme, financing of qualified PIU staff is envisaged to ensure proper implementation.
FX Risk	Medium/ Medium	The loan is provided on a sovereign basis and FX risk is not significant for the proposed exposure.

2. MEASURING / MONITORING SUCCESS

Overall objectives of project	Monitoring benchmarks	Implementation timing
- On-time project implementation	- Completion according to the timeline and within the budget	[REDACTED]
- Maintaining appropriate environmental standards	- Successful and timely implementation of the ESAP	

Primary Quality: Green, Secondary Quality: Well-governed

Quality	Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
Green	1.1	CO2 Emissions reduced (tonnes/yr.)	Expected CO2 reduction	[REDACTED]	[REDACTED]	[REDACTED]
	1.2	Water Saved (m3/y)	Expected decrease of water losses	[REDACTED]	[REDACTED]	[REDACTED]
	1.3	New or updated GET technology or introducing a product leading to resource efficiency	Introduction of 'hydro-brakes' to control the release of flood waters into the downstream conveyance system.	[REDACTED]	[REDACTED]	[REDACTED]
Well governed	2.1	Public service contract or Public Service Obligation signed and implemented	PSC to be developed and signed by the EWHDN and Orkhon Province for the City's water service	[REDACTED]	[REDACTED]	[REDACTED]
	2.2	Corporate Development Programme	CDP developed and adopted	[REDACTED]	[REDACTED]	[REDACTED]
	2.3	The client achieving operational performance (cost recovery)	Tariffs fully cover Company's operating and maintenance costs and where tariffs are not sufficient, provide subsidies	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES**3.1 BORROWER**

The Borrower is the Government of Mongolia, represented by the Ministry of Finance. Underpinned by a three-year USD 430 million Extended Fund Facility, approved by IMF in May 2017, favourable global commodity prices, and strong improvement in private investment, Mongolia has been on a path to recovery since 2017, achieving impressive fiscal outcomes and better coordination of macroeconomic policies. Real GDP growth stood at 5.3 per cent in 2017, further growing to 7.2 per cent in 2018. Following a gradual decline in commodity prices, combined with a reduction in the quality of key mineral exports, growth evened out to 5.3 per cent in 2019. The IMF programme was suspended in November 2018 due to non-compliance with financial sector conditionalities. As a result of disruption to trade by COVID-19, mineral exports declined by 26 per cent in the first two months of 2020 (full data for Q1 2020 will only become available in April 2020). The Bank of Mongolia forecasts that economic growth could fall to 2.3 per cent (compared to earlier projection of World Bank of 5.6 per cent and ADB's 6.1 per cent) in 2020 if the COVID-19 situation

extends through the end of June. If the epidemic is contained by mid-April, GDP growth is expected to reach 4.1 per cent.

[REDACTED] The public debt-to-GDP ratio was forecast to decline by about 16 percentage points by end-2024, according to the latest IMF assessment. This does not account for the ongoing COVID-19 crisis and its potentially long-term impact on both Chinese demand for Mongolian exports and global commodity prices, which Mongolia’s economy crucially depends on. 40 per cent of public debt is on concessional terms, which is expected to rise to about 60 per cent by the end of 2020. Rating agencies last evaluated Mongolia in 2019; B/stable by S&P, B/stable by Fitch, and B3/stable by Moody’s.

3.2 IMPLEMENTING AGENCY

The loan proceeds will be on-lent and the grant proceeds will be on-granted to the Province of Orkhon. The Province will sign a Project Agreement with the Bank and will be the Project’s main implementing body. Orkhon is located in northern Mongolia, with a total population of 104,000. It has two “soums” (administrative subdivisions), Jargalant and Bayan-Undur also known as the city of Erdenet (the “City”). The Province’s Urban Development and Monitoring Division (UDMD) is responsible for planning the flood protection system, while the Public Service Office (PSO), part of the Mayor’s Office, is responsible for its maintenance. A PIU, to be financed by the loan proceeds, will be established at the Province level. It will comprise of representatives from the Province, the Mayor’s office, the Company and up to three experts, who will be hired to support the PIU.

3.3 THE COMPANY

Erdenet Water and Heat Distribution Network (“EWHDN”) is a public company owned by the Province. It was founded in 1976 as a multi-service utility in Erdenet. The Company will be the implementing entity for the Project’s water component, while Orkhon province is expected to retain strategic and financial oversight. The Company generates USD 6 million in annual revenues and around zero net profit.

4. MARKET CONTEXT

The occurrence of intense storm events in Mongolia has increased by up to 20 per cent, increasing the risk of floods. Due to its geographic position and low elevation, Erdenet is prone to flooding. During the rainy season, heavy streams of water flow down from the mountains, causing floods. High migration towards the urban centre has caused expansion in the City’s ger area, where about 60 per cent of the population currently resides. This territory lies in the Erdenet river catchment area, forming one of the primary run-off routes. Flooding also affects roads and developed urban parts of the city. During the period 2008-2018, Erdenet experienced flooding ten times, causing the loss of more than 8 human lives and economic and environmental damage of USD 5.3 million (EUR 4.8 million). [REDACTED]

In addition, the Project's location is exposed to progressively increasing water stress and drought risk, conditions that are in part driven by climate change impacts. Improving water use efficiency in the City's water supply system is therefore an important climate resilience priority for the City. EWHDN is a natural monopoly, supplying water services to 40 per cent of the City's residents and the remaining population collect water from 79 water kiosks operated by EWHDN. Non-revenue water ("NRW") is high, estimated at 55 per cent, which has arisen from a combination of insufficient network maintenance (giving rise to physical losses) and administrative losses (illegal connections, poor billing, etc.). The water tariff that EWHDN charges to the consumer is set by the Water Regulatory Committee.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 ECONOMIC ANALYSIS

[REDACTED]

5.4 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

The Project is categorised B under the 2014 Environmental and Social Policy. The environmental and social due diligence ("ESDD"), has included an independent environmental and social audit/review of the current operations of the implementing entities and an analysis of potential environmental and social issues associated with the proposed priority investment programmes. The ESDD concluded that the Project will reduce water losses from the existing network, improve the reliability and quality of the drinking water supply to the majority of water kiosks and in the city network to meet local and EU requirements. There will also be substantial social benefits from the reduced frequency of flood events as a result of the Project. Environmental and social (E&S) risks and adverse impacts are mainly associated with the construction works and assessed to be limited, localised and short-term as well as effectively mitigated by adhering to good construction practice as required by the ESAP and outlined in a construction E&S management plan, and through stakeholder engagement.

Construction works will generally take place within the urban/peri-urban area. No physical displacement or impacts on nationally or local protected areas or sensitive habitats are anticipated due to the location of proposed flood water storage areas. Economic displacement is expected to be limited as land plots needed for the project are undeveloped, mainly owned by the City and located adjacent to existing infrastructure. E&S impacts including noise generated by equipment, local short-term increases in traffic intensity and corresponding increases in air pollution levels, potential temporary access restrictions and occupational and community health and safety will be mitigated by adhering to good construction practice

The existing water supply network in the City is in generally in poor condition with high rates of water loss. Implementation and operation of the Project will be the responsibility of a number of different entities, namely the Governor's Office Engineering Department for construction, the Erdenet Water and Heat Distribution Network (EWHDN) for operation and maintenance of the drinking water supply system and the Public Service Office (PSO) for operation and maintenance of the flood protection system. ESDD included an assessment of the capacity of these entities and identified that the current Environmental Health and Safety ("EHS") management capabilities and underdeveloped EHS management systems require strengthening, and that the current occupational health and safety and stakeholder engagement practices require further improvement to meet EBRD's Performance Requirements (PRs).

Environmental and Social Action Plan (ESAP) has been developed to address the findings of the ESDD and it has been agreed with the Client. The ESAP requires, among others, the development of an E&S management system, contractor E&S management plans to manage construction impacts and inclusion of community health and safety measures in the design, construction and operation. A SEP has been developed and will be implemented by the Project entities and an emergency response plan including flood events is also required to be developed and implemented.

The Company will provide the Bank with annual environmental and social reports, including updates on the implementation of the ESAP. The Bank may also conduct monitoring visits, as required. [REDACTED]

6.2 INTEGRITY

Integrity due diligence was undertaken on the Borrower, the Province and the Company, its shareholders, senior management and other relevant parties. The review did not identify any material integrity issues and it was therefore concluded that this Project does not pose an unacceptable reputational risk to the Bank.

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project, and the Project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the Project.

6.3 AFFORDABILITY ANALYSIS

The recommended flood investment scheme is non-revenue generating. It would not be appropriate to finance the scheme through a simple tariff uplift, or levy increase mechanism as it would disproportionately burden the most vulnerable groups.

Affordability analysis shows that water services are expected to remain affordable for both average and low-income households throughout the loan's lifetime.

ANNEXES TO OPERATION REPORT

ANNEX 1	TC SSF FICHE
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ANNEX 1: TC SSF FICHE

[REDACTED]

ANNEX 2: EIRR ANALYSIS

The Project is expected to deliver the following key external economic benefits:

1. **Reduction in economic losses due to flooding:** It was estimated that the same frequency and impact of flooding will occur in the years following the absence of the Project's implementation. The statistical data was adjusted to inflation. The Project will also have indirect cost savings, such as reduction of damage due to disrupted activities (i.e. damage caused by interrupted business, production and manufacturing, public service, house works, leisure activities, etc.), emergency response costs and land price hikes due to improved flood protection. The total value of the reduced economic losses is estimated at USD 10 million.
2. **Reduction in human loss from flooding:** The estimated number of human loss was based on logic similar to above, that the same frequency and impacts of flooding will occur in the years following the absence of the Project's implementation. The value of avoided deaths or saved lives is calculated by applying a value of statistical life (VSL). The value of statistical life for Mongolia was considered to be USD 0.7 million. Following this approach, the total reduction in human losses equates to USD 6 million.
3. **Reduction in water loss:** The Project will result in water saving [REDACTED]. The economic benefit of water savings was calculated based on the unit price paid to the water supplier [REDACTED].
4. **Access to improved drinking water:** The economic value was calculated by considering the number of households with improved access to drinking water and the unitary value of this benefit. The upper limit for the benefit of access to cleaner drinking water is assumed at EUR 114.2 per household per year in 1999 values, which translates to EUR 228 in current values. For the analysis, 85 per cent of the upper limit was used as benchmark. However, considering that the Project has a limited impact on achieving service quality compliant with EU Directives, it was assumed that 10 per cent of unitary economic benefit value would derive from the Project's implementation. [REDACTED].

ANNEX 3: PROJECT IMPLEMENTATION

Procurement classification – *Public sovereign*

In accordance with the current EBRD Country Procurement Risk Index 2016³, Mongolia is allocated a ‘moderate’ level of risk, to be applied to all public sector projects. [REDACTED]

Project implementation arrangements:

The PIU will be responsible for the Project’s day-to-day management during the entire Project implementation period. The PIU will be responsible for, among others, preparing project implementation plans, procurement documents and progress reports, as well as managing all contacts. The PIU is expected to be formed by representatives from the Governor’s office, Mayor’s office and the Company. [REDACTED]

All procurement will be conducted through the EBRD Client e-Procurement Portal (ECEPP).

Procurement arrangements:

Goods, works and services financed from the loan, except for the PIU’s operating and administrative costs, will be procured under open tender procedures in accordance with the requirements of Section III, Article 3 of the Bank’s Procurement policies and Rules (PPR) for public sector operations. They will use the Bank’s standard tender documents.

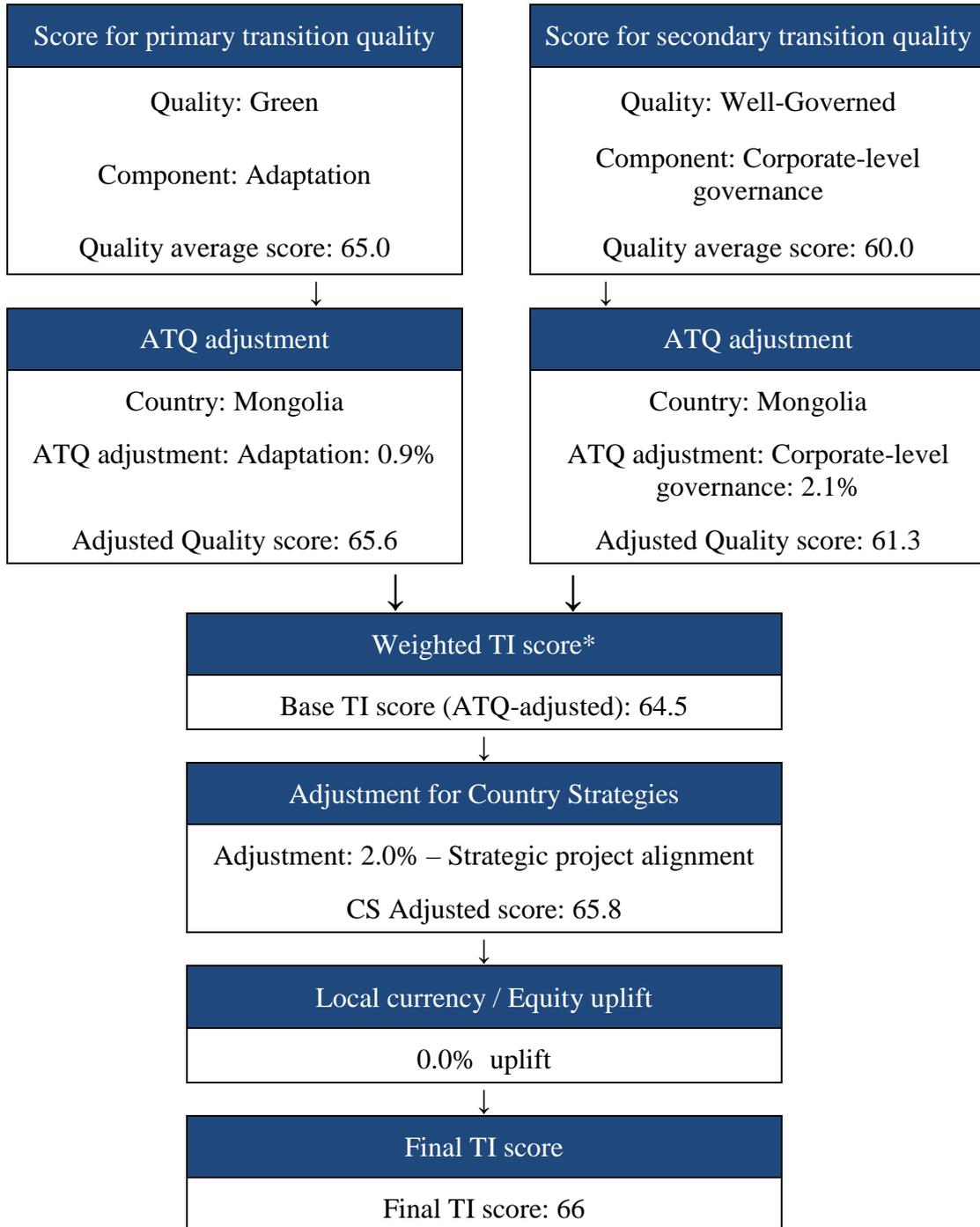
All consultants will be procured in accordance with Section III, Article 5 of the Bank’s PPR.

All loan-financed contracts will be subject to prior review by the Bank.

[REDACTED]

³ EBRD Country Procurement Risk Index 2016, Edition V.5 December 2017

ANNEX 4: TRANSITION IMPACT SCORING CHART



*The Primary Quality score is weighted 75% for the calculation of the Base TI Score. The Secondary Quality is weighted 25%.