
CREDIT NUMBER 6084-MN
CREDIT NUMBER 6085-MN

Financing Agreement

(Strengthening Fiscal and Financial Stability Project)

between

MONGOLIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated

July 5, 2017

CREDIT NUMBER 6084-MN
CREDIT NUMBER 6085-MN

FINANCING AGREEMENT

AGREEMENT dated *July 5*, 2017, entered into 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) constitute an integral 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, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to eight million eight hundred thousand Special Drawing Rights (SDR 8,800,000) (variously, "Credit" and "Financing"), consisting of: (a) an amount of six million Special Drawing Rights (SDR 6,000,000) ("Portion A of the Credit"); and (b) an amount of two million eight hundred thousand Special Drawing Rights (SDR 2,800,000) ("Portion B of the Credit"); all extended under the terms and conditions set forth in this Agreement, 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 IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

- 2.05. The Interest Charge payable by the Recipient on the Withdrawn Credit Balance of Portion A of the Credit shall be equal to one and a quarter percent (1.25%) per annum.
- 2.06. The Interest Charge payable by the Recipient on the Withdrawn Credit Balance of Portion B of the Credit shall be equal to one point one three percent (1.13%) per annum.
- 2.07. The Payment Dates are January 15 and July 15 in each year.
- 2.08. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.09. 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 through its Ministry of Finance in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01. The Additional Condition of Effectiveness consists of the following:
 - (a) The Project Implementation Unit has been established pursuant to Section I.A.1(b) of Schedule 2 to this Agreement; and
 - (b) The Project Implementation Manual has been adopted by the Recipient on terms and conditions satisfactory to the Association.
- 4.02. The Effectiveness Deadline is the date one hundred and twenty (120) days after the date of this Agreement.

- 4.03. For purposes of Section 8.05 (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 date of this Agreement.

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is its Minister at the time responsible for Finance.

- 5.02. The Recipient's Address is:

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

Facsimile:
976-51-264908

- 5.03. The Association's Address is:

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

Facsimile:
1-202-477-6391

AGREED at Ulaanbaatar, Mongolia, as of the day and year first above written.

MONGOLIA

By



Authorized Representative

Name: Choijilsuren Battajtokh

Title: Minister of Finance

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: James H. Anderson

Title: Country Manager

SCHEDULE 1

Project Description

The objective of the Project is to contribute to the Recipient's efforts to strengthen fiscal and financial stability and improve the quality of expenditure management.

The Project consists of the following parts:

Part A. Strengthening Macroeconomic and Fiscal Management

Strengthening fiscal responsibility and implementing relevant policy measures, including:

1. improving macroeconomic policy tools and enhancing research capacity;
2. strengthening fiscal policy and planning; and
3. strengthening debt management and external development financing operations.

Part B. Improving the Efficiency of Public Financial Management

Improving fiscal discipline, including:

1. improving budget credibility, predictability and execution for better delivery of services;
2. increasing budget comprehensiveness and transparency through better control, reporting and expansion of the Recipient's integrated financial management information system capabilities;
3. strengthening the public financial management institutional capacity; and
4. strengthening public investment management.

Part C. Enhancing Financial Sector Stability

Strengthening the resiliency of the banking system, including:

1. developing and implementing a financial sector development strategy to strengthen financial sector stability;
2. providing support for the effective management of the DBM;
3. strengthening financial safety nets;

4. strengthening the institutional capacity of the FRC; and
5. improving the capacity of BOM to enhance financial stability.

Part D. Strengthening the Social Protection System

Improving public expenditure quality in social protection, including:

1. strengthening social welfare design, targeting, operations and performance; and
2. strengthening social insurance design, governance and financial management.

Part E. Project Management and Monitoring

Providing support for Project implementation, coordination, monitoring and evaluation, including, *inter alia*, audit arrangements, reporting requirements, procurement, and financial management activities.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall:

(a) establish, and thereafter maintain throughout the implementation of the Project, an inter-ministerial Project Steering Committee, chaired by the MOF, and comprised of the representatives of the MOF, MLSP, BOM, and FRC, and assigned with such functions, powers, resources and competencies, satisfactory to the Association, as shall be required for the overall policy guidance and general oversight of Project implementation, including inter-ministerial coordination, Project monitoring and evaluation, and the liaison with the Association. The Project Steering Committee shall meet at least once every calendar quarter;

(b) establish, and thereafter maintain, throughout the implementation of the Project, the Project Implementation Unit (“PIU”), to be responsible for the overall management and coordination of Project fiduciary obligations, with a mandate, composition and terms of reference as set out in the Project Implementation Manual and acceptable to the Association; and

(c) cause each of MOF, MLSP, BOM, DBM, DICOM and FRC to appoint, and thereafter maintain throughout the implementation of the Project, a coordinator in each of MOF, MLSP, BOM, DBM, DICOM and FRC for the purposes of handling the day-to-day technical aspects of the Project activities (other than the fiduciary responsibilities assigned to the PIU) in each of the their respective parts of the Project and technical coordination with the PIU, under terms of reference satisfactory to the Association.

B. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Project Implementation Manual

1. The Recipient shall carry out the Project in accordance with the Project Implementation Manual.
2. The Recipient shall not amend, suspend, waive, cancel or abrogate, or cause to be amended, suspended, waived, cancelled or abrogated, the Project Implementation Manual and/or any provisions thereof, without the prior written agreement of the

Association. In the event of any inconsistency between the provisions of the Project Implementation Manual and those of this Agreement, the provisions of this Agreement shall prevail.

D. Safeguards

The Recipient shall ensure, that all terms of reference for any technical assistance or studies carried out under the Project are consistent with, and pay due attention to, the Association's Safeguards Policies.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators acceptable to the Association and set out in the Project Implementation Manual. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.
2. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than four (4) months after the Closing Date.

B. Mid-term Review

The Recipient shall: (a) not later than January 31, 2020 (or such other date as the Association may agree), carry out a mid-term review of the Project and, 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 paragraph 1 of this Section II.A, and setting out the measures recommended to ensure the continued efficient carrying out the Project and the achievement of its objective during the period following such date; and (b) review with the Association, such mid-term report, on or about the date one month after its submission, and thereafter take all measures required to ensure the continued efficient implementation of the Project and the achievement of its objective, based on the conclusions and recommendations of the mid-term report and the Association's views on the matter.

C. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

Section III. Procurement

All goods, works, non-consulting services and consulting services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in the Procurement Regulations and the provisions of the Procurement Plan.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “Disbursement Guidelines for Investment Project Financing” dated February 2017, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Portion A of the Credit Allocated (expressed in SDR)	Amount of the Portion B of the Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
Goods, works, non-consulting services consulting services, Training and Incremental Operating Costs for the Project	6,000,000	2,800,000	100%
TOTAL AMOUNT	6,000,000	2,800,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is January 31, 2022.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each January 15 and July 15:	
commencing July 15, 2022 to and including January 15, 2032	1.65%
commencing July 15, 2032 to and including January 15, 2042	3.35%

* 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 3.03 (b) of the General Conditions.

APPENDIX

Section I. Definitions

1. “Anti-Corruption Guidelines” means 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. “Association’s Safeguards Policies” means the World Bank’s operational policies and procedures set forth in the World Bank’s Operational Manual under OP/BPs 4.01, 4.04, 4.09, 4.10, 4.11, 4.12, 4.36, 4.37, 7.50 and 7.60 published at www.worldbank.org/opmanual.
3. “BOM” means Bank of Mongolia, the Recipient’s central bank, established and operating pursuant to the Central Bank Law, as amended to the date of this Agreement, or any successor thereto.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “Central Bank Law” means the Recipient’s law, on central bank regulation, dated September 3, 1996, as amended to the date of this Agreement.
6. “DBM” means Development Bank of Mongolia, the Recipient’s development bank established and operating pursuant to the Law on the Development Bank dated February 10, 2011, as amended to the date of this Agreement, or any successor thereto.
7. “DICOM” means Deposit Insurance Corporation of Mongolia, the corporation established pursuant to the Law on Bank Deposit Insurance dated January 10, 2013, or any successor thereto.
8. “FRC” means the Recipient’s Financial Regulatory Commission, the commission established as a governmental organization pursuant to the Law on Legal Status of Financial Regulatory Commission, dated November 17, 2005, or any successor thereto.
9. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010, with the modifications set forth in Section II of this Appendix.
10. “Incremental Operating Costs” means the reasonable incremental operating costs under the Project incurred by the Recipient for purposes of Project management, implementation, and monitoring and evaluation, including office supplies and

consumables, utilities, bank charges, communications, information and communication campaigns, mass media and printing services, vehicle rental, operation, maintenance, and insurance, office space rental, building and equipment maintenance, travel, lodging, and subsistence allowances, and salaries of contractual and temporary staff, but excluding salary and salary supplements of staff of the Recipient's civil service.

11. "Ministry of Finance" means the Recipient's Ministry of Finance, or any successor thereto.
12. "MLSP" means the Recipient's Ministry of Labor and Social Protection, or any successor thereto.
13. "Portion A of the Credit" means the portion of the Credit referred to in Section 2.01(a) of this Agreement.
14. "Portion B of the Credit" means the portion of the Credit referred to in Section 2.01(b) of this Agreement.
15. "Procurement Plan" means the Recipient's procurement plan for the Project, dated May 4, 2017 and provided for under Section IV of the Procurement Regulations, as the same may be updated from time to time in agreement with the Association.
16. "Procurement Regulations" means the "World Bank Procurement Regulations for Borrowers under Investment Project Financing", dated July 1, 2016.
17. "Project Implementation Manual" means the manual to be prepared and adopted by the Recipient, acceptable to the Association, setting forth guidelines and procedures for the implementation, supervision, monitoring and evaluation of the Project, including, *inter alia*: (i) detailed institutional and implementation arrangements; (ii) planning and budgeting procedures for Project activities; (iii) reporting requirements, financial management and audit procedures; and (iv) monitoring and evaluation procedures, as the same may be amended from time to time in agreement with the Association.
18. "Project Implementation Unit" or "PIU" means the unit to be established pursuant to Section I.A.1(b) of Schedule 2 to this Agreement.
19. "Project Steering Committee" means the committee to be established pursuant to Section I.A.1(a) of Schedule 2 to this Agreement.
20. "Training" means the reasonable costs of expenditure incurred by the Recipient in facilitating and conducting training and workshop activities for the purpose of the Project, including costs of training or workshop materials; honoraria; interpretation and translation; equipment and venue rental; lunches; per diem; accommodation;

and transportation for those attending the training or workshop; but excluding salary and salary supplements of the Recipient's civil servants.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. Section 3.02 is modified to read as follows:

“Section 3.02. *Service Charge and Interest Charge*

(a) *Service Charge*. The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.

(b) *Interest Charge*. The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.”

2. Paragraph 16 of the Appendix (“Credit Account”) is modified to read as follows:

“Credit Account” means the accounts opened by the Association in its books in the name of the Recipient to each of which the amounts of the portions of the Credit specified in the Financing Agreement are respectively credited.”

3. Paragraph 28 of the Appendix (“Financing Payment”) is modified by inserting the words “the Interest Charge” between the words “the Service Charge” and “the Commitment Charge”.

4. The Appendix is modified by inserting a new paragraph 32 with the following definition of “Interest Charge”, and renumbering the subsequent paragraphs accordingly:

“32. “Interest Charge” means the interest charge specified in the Financing Agreement for the purpose of Section 3.02 (b).”

5. Renumbered paragraph 37 (originally paragraph 36) of the Appendix (“Payment Date”) is modified by inserting the words “Interest Charges” between the words “Service Charges” and “Commitment Charges”.

6. Renumbered paragraph 50 (originally paragraph 49) of the Appendix (“Service

Charge”) is modified by replacing the reference to Section 3.02 with Section 3.02 (a).