

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER H222-MOG

Financing Agreement

(Governance Assistance Project)

between

MONGOLIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 23, 2006

GRANT NUMBER H222-MOG

FINANCING AGREEMENT

AGREEMENT dated June 23, 2006, 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 the Financing 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 grant in an amount equivalent to nine million seven hundred thirty seven thousand Special Drawing Rights (SDR 9,737,000) (“Grant”) 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.

ARTICLE III – PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out through:
 - (a) MOF, Parts A(i), A(ii), B(iv), C(i), C(ii), and D of the Project;
 - (b) MOF in coordination with CSC, Part A(iii) of the Project;

- (c) MOF in coordination with MICPA, Part A(iv) of the Project;
- (d) MOJHA, Part B(i) of the Project;
- (e) MNE, Part B(ii) of the Project;
- (f) NSO, Part B(iii) of the Project; and
- (g) MRPAM, Part C(iii) of the Project;

all 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

- 4.01. The Additional Conditions of Effectiveness consist of the following:
- (a) The Recipient shall have established the Project Coordination Unit pursuant to provisions of paragraph 1 of Section I of Schedule 2 to this Agreement.
 - (b) The Recipient shall have adopted the Project Financial Manual pursuant to paragraph B.1 of Section II of Schedule 2 to this Agreement.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE V – REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is its Minister of Finance.

5.02. The Recipient's Address is:

Government Building 2
United Nations' Street 5/1
Ulaanbaatar, 210646
Mongolia

Facsimile: 976-11-262272

5.03. The Association's Address is:

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

Cable:	Telex:	Facsimile:
INDEVAS	248423 (MCI) or	1-202-477-6391
Washington, D.C.	64145 (MCI)	

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

MONGOLIA

By /s/ Namid Bayartsaikhan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Saha Dhevan Meyanathan

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Recipient in: (i) improving the efficiency and effectiveness of governance processes in the management of its public finances; (ii) promoting transparency and accountability in the performance of public sector functions; and (iii) fostering the investment climate in Mongolia.

The Project consists of the following parts:

Part A: Management of Public Finance

Strengthening fiduciary controls in the public sector by focusing on four critical areas: (i) debt management and the public investment program; (ii) decentralizing financial management; (iii) improving the efficiency of civil service expenditure; and (iv) consolidating public sector accounting reform, including provision of goods, consultancy services, workshops, staff training, capacity building, and study tours.

Part B: Fostering Public Accountability and Monitoring

Fostering public accountability and monitoring in the public sector to engender accountability by focusing on four critical areas: (i) developing an effective framework of income and asset declaration and disclosure and framework for conflict-of-interest prevention and resolution, and public awareness of the corruption and anti-corruption framework; (ii) strengthening public disclosure of Environmental Impact Assessments and other information on environment and natural resources management; (iii) enhance the institutional capacity of NSO for poverty monitoring and data dissemination; and (iv) upgrading the MOF website to a dynamic portal, including provision of goods, consultancy services, workshops, study tours, and staff training.

Part C: Investment Climate

Improving the investment climate in Mongolia in three critical areas: (i) strengthening the Recipient's tax administration; (ii) improving efficiency of public procurement; and (iii) establishing a rules-based, computerized, and web-based mining registry and cadastre system, including provision of goods,

consultancy services, workshops, staff training and capacity development, and study tours.

Part D: Project Coordination and Evaluation

Project management and monitoring and evaluation of the implementation of the Project, including provision of technical assistance, staffing, facilities and other resources in respect of such activities.

SCHEDULE 2

Project Execution

Section I. Project Management

1. The Recipient shall establish and thereafter maintain throughout the implementation of the Project the Project Coordination Unit responsible for the overall coordination and management of Project implementation, headed by the MOF State Secretary assisted by a Project Manager, and assigned with a Procurement Officer and Financial Officer, in each case with qualifications and experience and terms of reference satisfactory to the Association, selected and retained pursuant to paragraph C.2 of Section III of this Schedule and the Procurement Plan, and assigned with such powers, funds, staffing in adequate numbers and other resources as shall be required to enable the PCU to achieve its purposes.
2. The Recipient shall maintain throughout the implementation of the Project a Steering Committee, chaired by the Deputy Minister of Finance, and composed of a nominee from the President's Office, a nominee from the Prime Minister's Office, the MOF State Secretary, a nominee from the Private Sector, a nominee from the Civil Society, a nominee from the Anti-Corruption Council and a nominee from the Ministry of Justice and Home Affairs, for purposes of providing overall policy guidelines and advice on the implementation of the Project.
3. The Recipient shall by August 31, 2006, adopt and thereafter apply in the implementation of the Project an implementation manual, satisfactory to the Association. The Recipient shall not amend, waive, suspend, abrogate or cancel the Project Implementation Manual or any provision therein without the prior approval by the Association.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports.

1. The Recipient shall establish and thereafter maintain a system, satisfactory to the Association, to 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 set forth in the Annex to this Schedule. Each Project Report shall cover the period of one

calendar semester, and shall be furnished to the Association not later than one month 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 six months after the Closing Date.

B. Financial Management, Financial Reports and Audits.

1. The Recipient shall:
 - (a) maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions, including a computerized accounting system therefor;
 - (b) adopt and thereafter apply in the implementation of the Project a financial manual, including financial management reports, satisfactory to the Association;
 - (c) provide training to the PCU and MOF staff on the operation and maintenance of the financial management system in form and substance satisfactory to the Association; and
 - (d) not amend, waive, suspend, abrogate or cancel the Project Financial Manual or any provision therein without the prior approval by the Association.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report after the end of each calendar semester un-audited financial reports for the Project covering the prior calendar 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, commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made. 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.

4. For purposes of carrying out the audits referred to in paragraph B.3, Section II of this Schedule, the Recipient shall, by not later than December 31, 2006, retain the services of an audit firm with staffing including auditors and accountants, in adequate numbers and with qualifications, experience and under terms of references satisfactory to the Association.

Section III. Procurement

A. General.

1. **Goods.** All goods 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 Section I of the Procurement Guidelines, and with the provisions of this Schedule.
2. **Consultants' Services.** All consultants' 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 Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods.

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method	
(a)	National Competitive Bidding following procedures acceptable to the Association.
(b)	Shopping
(c)	Direct Contracting

C. Particular Methods of Procurement of Consultants' Services.

- 1. Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

- 2. Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method	
(a)	Quality-Based Selection (QBS)
(b)	Selection Based on the Consultants' Qualifications (CQS)
(c)	Single-Source Selection (SSS)
(d)	Least-Cost Selection (LCS)
(e)	Selection of Individual Consultants (IC)

D. Review by the Bank of Procurement Decisions.

1. Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) the first three contracts for goods awarded following National Competitive Bidding procedures regardless of their values and thereafter each contract for goods estimated to cost the equivalent of \$75,000 or more; (b) all contracts for goods under Direct Contracting procedures regardless of their individual estimated cost; (c) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; (d) each contract for consultants' services provided by an individual estimated to cost the equivalent of \$50,000 or more; and (e) all contracts under Single Source Selection and Least-Cost Selection methods regardless of their individual estimated cost. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General.

1. 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 Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category, including taxes:

Category	Amount of the Grant Allocated (expressed in SDR)	Financing Percentage
1. Goods	3,638,000	100%
2. Consultancy Services, including audits of Project accounts	4,625,000	100%
3. Training and Workshops	1,224,000	100%
4. Incremental Operating Costs	250,000	100%
TOTAL AMOUNT:	9,737,000	

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 15, 2012.

ANNEX

Performance Indicators

Project Development Objective	Outcome Indicators
<p>To assist the government in: (i) improving the efficiency and effectiveness of governance processes in management of public finances; (ii) promoting transparency and accountability in the performance of public sector functions; and (iii) fostering the investment climate in Mongolia..</p>	<ul style="list-style-type: none"> ○ Evidence of improved efficiency and effectiveness of management of public finance framework. ○ Evidence of improved public accountability and monitoring framework. ○ Reduced cost of compliance for business taxpayers (among pilot group)
	<p style="text-align: center;">Results Indicators</p> <ul style="list-style-type: none"> ☞ Public access to key fiscal information (PEFA: PI-10). ☞ Public debt management strategy adopted. ☞ Medium term public investment program formulated. ☞ Report on loans and grants published. ☞ Government Financial Management Information System (GFMIS) rolled out to additional budget entities and soums. ☞ Promulgation of a Law and regulations governing contracted out workers.
<p><i>Component A (Management of public finance)</i></p>	<ul style="list-style-type: none"> ☞ Effective conflict of interest system that complies with the UN Convention against Corruption adopted. ☞ A dynamic website at MOF to promote disclosure is established. ☞ Raw LSMS data made available to the public. ☞ LSMS Survey embedded into the annual Household Income and Expenditure Survey exercise.
<p><i>Component B (Fostering public accountability and monitoring)</i></p>	

<i>Component C (Investment Climate)</i>	<ul style="list-style-type: none">☞ Reduced proportion of audits of business taxpayers (among pilot group).☞ Improved access to key information on General Department for National Taxation (GDNT) policies, requirements, performance metrics, and taxpayers' rights.☞ Use of open competition in public procurement (PEFA: PI-19).☞ Efficient, timely, and independent operation of the Mining Registry and Cadastre system.
<i>Component D (Project Coordination and Evaluation)</i>	<ul style="list-style-type: none">☞ Evidence of the timely and satisfactory implementation of project components as planned.

APPENDIX

Section I. Definitions

1. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
2. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
3. “CSC” means the Recipient’s Civil Service Council established according to the Civil Service Law on July 3, 1995, as restructured by Ikh Hural Resolution No.85 dated November 28, 2002, for purposes of implementing Civil Service Law and the Public Sector Management and Finance Law, and any successor thereto.
4. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
5. “MICPA” means the Mongolian Institute of Certified Public Accountants, a nongovernmental organization established on March 9, 1999, duly registered with the Recipient’s Ministry of Justice and Home Affairs pursuant to the Recipient’s laws and regulations, and whose purpose is, inter alia, to promote the development and enhancing of the accounting and auditing profession in Mongolia.
6. “MNE” means the Recipient’s Ministry of Nature and Environment and any successor thereto.
7. “MOF” means the Recipient’s Ministry of Finance and any successor thereto.
8. “MOJHA” means the Recipient’s Ministry of Justice and Home Affairs and any successor thereto.
9. “MRPAM” means the Recipient’s Cadastre Office of the Mineral Resource and Petroleum Authority of Mongolia established by Prime Minister Resolution No.249 dated December 29, 2004, pursuant to Ikh Hural Resolution No.14 dated September 2004, for purposes of

implementing the Mongolia Law on Minerals, and any successor thereto.

10. “NSO” means the Recipient’s National Statistical Office established on November 11, 1924, and reorganized by Resolution No.45 issued by the Ikh Hural on July 5, 1997, for purposes of, inter alia, assessing country socio-economic situation through statistical analysis, and any successor thereto.
11. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
12. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 27, 2006, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
13. “Project Coordination Unit” and the acronym “PCU” means the unit established by Order No.105 of the State Secretary of Finance of the Recipient dated April 19, 2006, and maintained by the Recipient within its Ministry of Finance pursuant to paragraph 1 of Section I of Schedule 2 of this Agreement.
14. “Project Financial Manual” means the manual adopted on May 31, 2006 by the Recipient pursuant to paragraph B.1 of Section II of Schedule 2 to this Agreement as the same may be amended with the prior agreement by the Association.
15. “Project Implementation Manual” means the manual to be adopted by the Recipient pursuant to paragraph 3 of Section I of Schedule 2 to this Agreement as the same may be amended with the prior agreement by the Association.
16. “Steering Committee” means the committee established by Order No.111 of the Minister of Finance of the Recipient dated April, 5, 2006, and maintained by the Recipient pursuant to paragraph 2 of Section I of Schedule 2 to this Agreement.