

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER H232-MOG

Financing Agreement

(Information and Communications Infrastructure Development Project)

between

MONGOLIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 23, 2006

Public Disclosure Authorized



GRANT NUMBER H232-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 five million five hundred and sixty three thousand Special Drawing Rights (SDR 5,563,000) (“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 Parts A and B of the Project through CRC and Parts C and D of the Project through ICTA, 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 adopted the Project Implementation Manual pursuant to paragraph 3 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 Washington, D.C.	248423 (MCI) or 64145 (MCI)	1-202-477-6391

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 significantly increasing the coverage and use of relevant Information and Communications Technologies services among the rural population through an incentive program designed to encourage the participation of private operators in the rural segment of the Information and Communications Technologies market; and increasing private sector participation in the delivery of e-government services, thereby improving public sector utilization of Information and Communications Technologies.

The Project consists of the following parts:

Part A: Information and Communications Infrastructure Development in Rural Areas

Development and implementation of a competitive and transparent process for private sector participation in providing telephony services at the Bagh level and telephony and internet services at the Soum level, including the provision of capital subsidies to operators selected through an output-based aid (OBA) tender process, and technical assistance therefor.

Part B: Communications Regulatory Development

Strengthening of the institutional capacity of the Communications Regulatory Commission to promote competition and growth in the Information and Communications Technologies sector, including establishment of a radio spectrum management and monitoring system, provision of technical assistance in the areas of licensing, spectrum policy, and specialized regulatory advice, and staff training in related areas such as regulation of competition, public consultative processes, interconnection, price regulation, resolution of disputes, consumer rights and complaints, accounting for costs, and new trends in communications regulation, including staff training and technical assistance therefor.

Part C: Public Private Partnerships (PPPs) for e-Government

Development and implementation of a Public-Private Partnerships (PPPs) program for provision of e-government services, including developing the policy,

legal and regulatory frameworks for PPPs in e-government, carrying out a detailed pre-feasibility study to identify PPP project opportunities for e-government, rank order them and develop requests for proposals (RFPs), and providing Recipient investment support including equity and in kind contributions to the selected PPPs, provision of staff training, and technical assistance therefor.

Part D: Project Management 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, within ICTA, maintain throughout the implementation of the Project, the Project Implementation Unit responsible for the overall coordination and management of Project implementation headed by Project Director and assigned with a Procurement Officer and Financial Management Officer, in each case with qualifications, experience, and terms of reference satisfactory to the Association, and assigned with such powers, funds, staff in adequate numbers and other resources as shall be required to enable the PIU to achieve its purposes.
2. The Recipient shall maintain throughout the implementation of the Project a Steering Committee chaired by the Chairman of ICTA, and composed of the Chairman and CEO of CRC, two officials from the Ministry of Finance each at Director level, an official from ICTA at Director level, and a member of the Board of CRC, for purposes of providing overall policy guidelines and coordinating the implementation of the activities under the Project.
3. The Recipient shall adopt and thereafter apply in the implementation of the Project, a Project 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.
4. For the purposes of carrying out Part A of the Project the Recipient shall, through CRC:
 - (a) select, through an output-based aid (OBA) tender process acceptable to the Association, private sector operators to provide telephony services at the Bagh level, and telephony and internet services to Soum center communities;
 - (b) enter into Universal Service Agreements with selected private sector operators to provide payment of capital subsidies out of the

proceeds of the Financing, upon fulfillment of agreed intermediate and final outputs in the provision of the above mentioned services; and

- (c) certify to the Association, in a manner and substance satisfactory to the Association, that the selected private sector operators have complied with their respective obligations under the relevant Universal Service Agreement.
5. For purposes of paragraph 4 above, by no later than December 31, 2006, the Recipient shall, through CRC, prepare and furnish to the Association for its review and approval, a certification mechanism for financing, out of the proceeds of the Financing, capital subsidies under Part A of the Project, and thereafter, apply such certification mechanism as so approved.

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 PIU staff and ICTA and CRC 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 reference 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) Shopping

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
(b)	Least-Cost Selection
(c)	Fixed Budget Selection
(d)	Consultants Qualifications
(e)	Single Source Selection
(f)	Individual Consultants

D. Review by the Association 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) each contract for goods, estimated to cost the equivalent of \$40,000 or more; (b) all contracts for Universal Service Agreements under Part A of the project; (c) all contracts for investment support under Part C of the Project; (d) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; (e) each contract for consultants' services provided by an individual estimated to cost the equivalent of \$50,000 or more; (f) all contracts under Single Source Selection method regardless of their individual estimated cost; and (g) all contracts for audits of Project accounts regardless of their method of procurement and their individual estimated cost. In addition, with respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Association. 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:

	<u>Category</u>	<u>Amount of the Grant (expressed in SDR)</u>	<u>Percentage of Expenditures to be financed*</u>
(1)	Goods:		
	(a) under Part B of the Project	453,000	75%
	(b) under other Parts of the Project	24,000	100%
(2)	Capital Subsidies under Part A of the Project	3,687,000	100%
(3)	Government Investment Support under Part C of the Project	661,000	100%
(4)	Consultants' Services, including audits of Project accounts	25,000	100%
(5)	Incremental Operating Cost	45,000	100%
(6)	Project Preparation Advance Financing	530,000	100%
(7)	Unallocated	138,000	
	TOTAL AMOUNT:	5,563,000	

* Exclusive of taxes for Categories (1), (2) and (3); and inclusive of taxes for (4) and (5).

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. For purposes of the table above the term “incremental operating cost” means reasonable expenditures incurred by the PIU on account of Project management, supervision, monitoring and reporting including banking services, in-country travel and per diem allowances for Project staff conducting supervision, office supplies, communication costs, and fuel and maintenance costs for vehicle, which expenditures would not have been incurred absent the Project, but excluding salaries of civil servants and office rent; and the term “Capital Subsidies” means the contributions to be provided to selected operators pursuant to paragraph 4(b) of Section I, Schedule 2 to this Agreement.
3. The Closing Date is March 31, 2012.

ANNEX

Performance Indicators

Project Development Objective	Outcome Indicators	Baseline	Midterm (end year 3)	End of Project
To significantly increase the coverage and use of relevant ICT services among the rural population through an incentive program designed to encourage the participation of private operators in the rural segment of the ICT market; and increase private sector participation in the delivery of e-government services, thereby improving public sector utilization of ICT	Increased number of telephony minutes originated in soum centers with about 1,000 or more inhabitants	1.2 million annual minutes	2.3 million annual minutes	2.7 million annual minutes
	Increased number of internet users in soum centers with about 1,000 or more inhabitants	300	5,000	11,000
	Increased number of telephony minutes originated in rural areas outside of soum centers (herder network)	0 annual minutes	600,000 annual minutes	1,200,000 annual minutes
	Continued additional annual investment in the ICT sector	\$37.6 million	\$20 million	\$20 million
	Number of e-Government services provided in partnership with the private sector	1	2	4
	Number of Government ministries and agencies willing to accept the PPP model for e-Government	1	5	10

	Results Indicators	Baseline	Midterm (end year 3)	End of Project
Part A Information and Communications Infrastructure Development in Rural Areas	Increased number of soum centers with about 1,000 or more inhabitants with access to digital telephony services	120	160	200
	Increased number of soum centers with about 1,000 or more inhabitants with access to internet services	15	60	100
	Increased number of herder communities with access to telephony services	0	250	350
	Communications Law amended	NA	Completed by end Yr 1	
Part B Communications Regulatory Development	Increase in percentage of spectrum applications approved and assigned within 15 working days	50%	60%	80%
	Regulatory public consultation process established	NA	Established by end Yr 2	
	Increase in percentage of regulatory decisions published	58%	100%	100%

	Results Indicators	Baseline	Midterm (end year 3)	End of Project
Part C Public Private Partnerships for E-Government	Policy guidelines on PPPs approved	NA	Approved by end Yr 2	
	Number of CIOs of ministries, agencies and <i>aimags</i> trained	0	60	70
	Establishment of Government Portal	NA	Established by end Yr 2	
	Percentage of target users using on-line e- Government services in the areas supported by the project	NA	10%	30%
	Number of Government ministries/agencies with personnel trained in PPPs	1	5	10

APPENDIX

Section I. Definitions

1. “Bagh” means the lowest administrative subdivision of the Recipient.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
4. “CRC” means the Recipient’s “Communications Regulatory Commission” established in November 2001 pursuant to the Recipient’s 2000 Law on Communications, for purposes of regulating the Mongolian communications market, and any successor thereto.
5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
6. “ICTA” means the Recipient’s “Information and Communications Technology Authority” established on October 20, 2004, for purposes of developing and coordinating ICT policies and activities, and any successor thereto.
7. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
8. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated April 14, 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.
9. “Project Financial Manual” means the manual adopted 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.

10. "Project Implementation Manual" means the manual 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.
11. "Project Implementation Unit" and the acronym "PIU" mean the unit established on March 28, 2006, and to be maintained by the Recipient pursuant to paragraph 1 of Section I of Schedule 2 to this Agreement.
12. "Project Preparation Advance" means the advance referred to in Section 2.07 of the General Conditions, granted by the Association to the Recipient pursuant to the Letter Agreement signed on behalf of the Association on February 23, 2006, and on behalf of the Recipient on March 3, 2006.
13. "Steering Committee" means the committee established on April 19, 2006, and to be maintained by the Recipient pursuant to paragraph 2 of Section I of Schedule 2 to this Agreement.
14. "Soum" means an administrative subdivision of the Recipient.
15. "Universal Service Agreement" means the service agreement to be entered into between the Communications Regulatory Commission and selected operators pursuant to paragraph 4 of Section I of Schedule 2 of this Agreement for purposes of providing telephony and internet services under Part A of the Project.