

CONFORMED COPY

CREDIT NUMBER 3081 MOG

Development Credit Agreement

(Fiscal Technical Assistance Project)

between

MONGOLIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 8, 1998

CREDIT NUMBER 3081 MOG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 8, 1998, between MONGOLIA (the "Borrower") and INTERNATIONAL DEVELOPMENT ASSOCIATION (the "Association").

WHEREAS: (A) The Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project; and

WHEREAS: (B) The Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement.

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 as amended through December 2, 1997 (the "General Conditions") constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth, and the following additional terms, wherever used in this Agreement, have the following meanings:

(a) "Fiscal Year" means the twelve (12)-month period corresponding to any of the Borrower's Fiscal Years, which period commences on January 1 and ends on December

31 in each calendar year, and the term "Fiscal Years" means, collectively, more than one Fiscal Year;

(b) "Governmental Banking Services" means banking services directly related to bank accounts of the Borrower's governmental agencies and entities;

(c) "MOF" means the Borrower's Ministry of Finance, and such term includes any successor thereto;

(d) "Program" means the Borrower's Public Administration Reform Program;

(e) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated March 16, 1998, between the Borrower and the Association;

(f) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(g) "PSMFA Steering Committee" means the Steering Committee for the Borrower's Commission for the Implementation of the Public Sector Management and Finance Act, responsible for the overall supervision of the governmental financial management component of the Program; and

(h) "VAT Steering Committee" means the Borrower's Steering Committee responsible for the implementation of the Borrower's value added tax regime.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to three million eight hundred thousand Special Drawing Rights (SDR 3,800,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may for the purposes of the Project open and maintain in dollars a separate special deposit account in a commercial bank, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to the Association the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be June 30, 2001, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and

(ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on February 15 and August 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 15 and August 15 commencing August 15, 2008 and ending February 15, 2038. Each installment to and including the installment payable on February 15, 2018 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded seven hundred ninety dollars (\$790) in constant 1985 dollars for five (5) consecutive years and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental and public taxation practices, and shall provide promptly as needed the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section, and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Project Implementation Plan set

forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall: (i) maintain, or cause to be maintained, records and separate accounts adequate to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project, or any part thereof; and (ii) register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account, for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

Section 4.02. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditures, the Borrower shall:

(i) maintain, in accordance with sound accounting practices, records and accounts reflecting such expenditures;

(ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one (1) year after the Association has received the audit report for the Fiscal Year in which the last withdrawal from the Credit Account was made;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section, and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such Fiscal Year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Effective Date; Termination

Section 5.01. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Khudaldaany gudamj - 4
Ulaanbaatar 11
Mongolia

Telex:

79241 EZGHG MH

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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

MONGOLIA

By /s/ Bat-Erdene Batbayar

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ngozi Okonjo-Iweala

Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Amount of the Credit Allocated	% of
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Category	(Expressed in SDR Equivalent)	Expenditures to be Financed
(1) Goods	1,980,000	100% of foreign expenditures and 85% of local expenditures
(2) Consultants' services	420,000	100%
(3) Training	650,000	100%
(4) Refunding of the Project Preparation Advance	370,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(4) Unallocated	380,000	
	3,800,000	
TOTAL	3,800,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed three hundred eighty thousand Special Drawing Rights (SDR 380,000) may be made in respect of Categories (1), (2) and (3) on account of payments made for expenditures before that date but after January 1, 1998.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than the equivalent of fifty thousand dollars (\$50,000) each; (b) consultants' services under contracts awarded to consulting firms costing less than the equivalent of one hundred thousand dollars (\$100,000) each; (c) consultants' services under contracts awarded to individual consultants costing less than the equivalent of fifty thousand dollars (\$50,000); and (d) training, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to support the Borrower's Program of Public Administration Reform and to assist the Borrower to increase the efficiency and accountability of its internal public administration by: (i) establishing a transparent core government financial system; (ii) improving governmental accounting practices and procedures; and (iii) setting up a more effective system of governmental revenue mobilization, through the introduction of a value-added tax on goods and services.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives.

Part A: Governmental Financial Management

1. Provision of advisory services, training and study visits abroad in respect of governmental accounting system principles and practices, treasury, debt and cash

management, auditing, management skills and related disciplines.

2. Design of a fully functional and automated (i) debt, cash and treasury management system and (ii) governmental accounting system.
3. Provision of (a) computer hardware and software equipment; and (b) related office materials required for carrying out each of the foregoing, including any necessary operational technical training and end-user support.

Part B: Value Added Tax Implementation

1. Preparing a value-added tax law, including implementing regulations thereto.
2. Formulating and carrying out a publicity campaign and public consultations for the effective enforcement of the law and regulations referred to above.
3. Developing a detailed time-based action plan and associated publications and materials for taxpayer information functions.
4. Improving tax administration operations by formulating and implementing detailed time-based action plans for tax policy interpretation, taxpayer registration, tax accounting and reporting, tax audits, tax refunds and information and data exchange between tax administration and customs services.
5. Provision of computer hardware and software equipment and related office materials required for carrying out each of the foregoing, including any necessary operational technical training.
6. Provision of advisory services, training and study visits abroad on modalities and implementation of value added tax regimes.

* * * * *

The Project is expected to be completed by March 31, 2001.

SCHEDULE 3

Procurement

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and September 1997 (the "Guidelines") and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

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

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

- (a) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

- (b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost the equivalent of ten million dollars (\$10,000,000) or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of

the Guidelines.

Part C: Other Procurement Procedures

1. Limited International Bidding

Goods under Part A (3) (a) of the Project, which the Association agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Shopping

Goods estimated to cost less than the equivalent of one hundred thousand dollars (\$100,000) per contract, up to an aggregate amount not to exceed the equivalent of three hundred thousand dollars (\$300,000), may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of fifty thousand dollars (\$50,000) or more, the following procedures shall apply:

(i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

Part B: Quality- and Cost-based Selection

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

quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Advisory services for treasury management and government accounting shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services under Part A of the Project estimated to cost less than one hundred thousand dollars (\$100,000) equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of one hundred thousand dollars (\$100,000) or more, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of fifty thousand dollars (\$50,000) or more, the references for, and qualifications and terms of reference of, the consultants and the terms of their employment shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

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

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) The term "Eligible Categories" means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) The term "Eligible Expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the Eligible Categories

in accordance with the provisions of Schedule 1 to this Agreement; and

(c) The term "Authorized Allocation" means an amount equivalent to four hundred thousand dollars (\$400,000) to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule; provided, however, that unless the Association shall otherwise agree, the Authorized Allocation for the Special Account shall be limited to an amount equivalent to two hundred thousand dollars (\$200,000) until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of one million Special Drawing Rights (SDR 1,000,000).

2. Payments out of the Special Account shall be made exclusively for Eligible Expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective Eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) If, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) If the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) If, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) Once the total unwithdrawn amount of the Credit allocated to the respective Eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the Eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into such Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for Eligible Expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 5

Project Implementation Plan

Section 1. In order to ensure the proper carrying out of the Project, the Borrower shall: (a) maintain throughout the period of Project implementation, the PSMFA Steering Committee pursuant to terms of reference satisfactory to the Association, and ensure that the Committee shall be chaired at all times by the Borrower's Prime Minister and shall be composed of representatives of the Prime Minister's office, the MOF, the State Audit Board, the Government Services Council and the Senior Economic Advisor to the Prime Minister; (b) maintain throughout the period of Project implementation, the VAT Steering Committee pursuant to terms of reference satisfactory to the Association; (c) maintain a Project working group, throughout the period of Project implementation, with terms of reference, membership and other resources satisfactory to the Association; and (d) designate a project manager, with qualifications and experience satisfactory to the Association, responsible for coordinating the activities of the various donors involved in reforming the Borrower's public administration.

Section 2. Without limitation upon the provisions of Section 9.06 of the General Conditions, the Borrower shall:

(a) Maintain operational procedures adequate to enable it to monitor and evaluate, in accordance with indicators acceptable to the Association, the progress achieved in carrying out the Project;

(b) Prepare, in accordance with terms of reference acceptable to the Association, and furnish to the Association: (i) an annual report, not later than

March 31 in each Fiscal Year, beginning Fiscal year 1999, summarizing the monitoring and evaluation activities carried out pursuant to sub-paragraph (a) above in respect of the preceding Fiscal year, and setting forth proposed measures, as indicated by said monitoring and evaluation activities, to further the objectives of the Project; (ii) a mid-term report, not later than December 31, 1999, setting forth any proposed measures, as indicated by said monitoring and evaluation activities, to further the objectives of the Project; and (iii) a semi-annual progress report, not later than October 30 in each Fiscal Year, summarizing progress achieved in Project implementation, summarizing the Project's financial status, including reporting on, inter alia, costs incurred by individual expenditure category and detailing variances compared to the corresponding implementation plan, and status of procurement contracts; and

(c) Exchange views with the Association on each report furnished pursuant to sub-paragraphs (a) and (b) above, and thereafter take all measures in relation thereto as shall have been agreed between the Borrower and the Association.

Section 3. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

Section 4. In carrying out the Program, the Borrower shall take all action necessary to ensure that inter alia: (a) design of the governmental financial management system, pursuant to Part A of the Project, allows the MOF to discharge promptly its duties and responsibilities under the Borrower's Public Sector Management and Finance Act; and (b) only banks and financial institutions that meet the banking prudential requirements of the Bank of Mongolia are selected for the provision of Governmental Banking Services.

Section 5. The Borrower shall ensure that all training activities under the Project are carried out in accordance with a training program acceptable to the Association.

Section 6. The Borrower and the Association shall, from time to time, at the request of either party, exchange views with regard to the progress achieved by the Borrower in implementing the Program.

