

CONFORMED COPY

CREDIT NUMBER 3803 MOG

Development Credit Agreement

(Economic Capacity Building Technical Assistance Project)

between

MONGOLIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 23, 2003

CREDIT NUMBER 3803 MOG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 23, 2003, 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 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 October 6, 1999) (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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) “Aimag” means a province of the Borrower.
- (b) “Civil Service Code of Ethics” means the Borrower’s legal framework dated April 14, 1999, to ensure probity of civil servants.
- (c) “Government Financial Management Information System” means the Borrower’s accounting system, including computer software and hardware.

(d) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of this Agreement.

(e) “Fiscal Year” means, in respect of the Borrower, the twelve (12) month period commencing on January 1 and ending on December 31 in each calendar year.

(f) “Project Coordination Unit” means the unit established within the Borrower’s Ministry of Finance and Economy on January 30, 2003, and to be maintained in accordance with paragraph 2 of Schedule 4 to this Agreement.

(g) “Project Steering Committee” means the committee established within the Borrower’s Ministry of Finance and Economy on April 25, 2003, and to be maintained in accordance with paragraph 1 of Schedule 4 to this Agreement.

(h) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement.

(i) “Sub-Working Group” means each group established by the Borrower’s Ministry of Finance and Economy on February 5, 2003, and to be maintained in accordance with paragraph 4 of Schedule 4 to this Agreement, and “Sub-Working Groups” means, collectively, all of said Sub-Working Groups.

(j) “Working Group” means the group established by the Borrower’s Ministry of Finance and Economy on December 25, 2002, and to be maintained in accordance with paragraph 3 of Schedule 4 to this Agreement.

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 the Development Credit Agreement, an amount in various currencies equivalent to five million five hundred thousand Special Drawing Rights (SDR 5,500,000).

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 special deposit account in a commercial bank, acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 2007, 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 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 canceled; 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 June 1 and December 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 1 and December 1 commencing December 1, 2013, and ending June 1, 2043. Each installment to and including the installment payable on June 1, 2023, 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 per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; 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 repayment of installments under paragraph (a) above by:

- (A) 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; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(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 through its Ministry of Finance and Economy with due diligence and efficiency and in conformity with appropriate administrative, management, financial and economic standards and 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 Implementation Program set forth in Schedule 4 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.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) 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 Borrower and the Association, a plan for the continued achievement of the objectives of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, 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, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and 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 such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (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.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set forth in paragraph 8 of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than thirty (30) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter thereafter, each Financial Monitoring Report shall be furnished to the Association not later than thirty (30) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower has established a financial management system for the Project, satisfactory to the Association, and its relevant staff has received training in the use of said system, in accordance with paragraph 5(a) of Schedule 4 to this Agreement; and

(b) the Borrower has adopted a financial management manual for the Project, acceptable to the Association, in accordance with paragraph 5(b) of Schedule 4 to this Agreement.

Section 5.02. The date ninety (90) 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 and Economy 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 and Economy
United Nations Street – 5 a
Ulaanbaatar - 210646
Mongolia

Facsimile:

976- 11- 320247

For the Association:

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

Cable address:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

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

MONGOLIA

By /s/ Chultemiin Ulaan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ian Porter

Authorized Representative

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 to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods	2,440,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 87% of local expenditures for other items procured locally
(2) Consultants' services		94%
(a) under Parts A, B, and C.2 of the Project	2,250,000	
(b) under Part C.1 of the Project	220,000	
(3) Training and workshops	230,000	100%
(4) Incremental operating costs	20,000	90% for calendar year 2003 70% for calendar year 2004 50% for calendar year 2005 30% for calendar year 2006
(5) Unallocated	<u>340,000</u>	
TOTAL	<u>5,500,000</u>	

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;

(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; and

(c) the term “Incremental operating costs” means reasonable expenditures directly related to the Project, incurred by the Borrower (which expenditures would not have been incurred absent the Project), for the operation of the Project Coordination Unit, including costs for communication, postage, stationery, translations, technology support, photocopying, office consumables, transportation, procurement advertising, and travel per diem of Project staff, but excluding salaries and allowances.

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.

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 costing less than \$30,000 equivalent per contract; (b) contracts for the employment of consulting firms costing less than \$100,000 equivalent per contract; (c) contracts for the employment of individual consultants costing less than \$50,000 equivalent per contract; (d) training and workshops; and (e) incremental operating costs; all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower to design and implement a public sector management reform program aimed at improving: (a) budgetary and public expenditure management systems and processes; and (b) civil service and public administration performance.

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: Strengthening Public Expenditure Management

Carrying out a program to strengthen public expenditure management capacity, consisting of:

1. Development of a medium-term fiscal framework, and of medium-term expenditure frameworks for the Borrower's Ministry of Finance and Economy, the Borrower's Ministry of Education, Culture and Science, and the Borrower's Ministry of Social Welfare and Labor; and improvement of the Borrower's systems and processes to analyze and prioritize budget proposals.
2. Implementation of the Government Financial Management Information System at the Aimag level to strengthen budget control and execution and improve fiscal management.
3. Improvement of institutional arrangements for procurement, including the development of efficient procurement practices and recommendations to strengthen the legal framework for procurement.
4. Strengthening of the Borrower's capacity to monitor, report and evaluate budget expenditures, through the development of a monitoring plan, reporting system, performance measures and indicators, and a regulatory framework for monitoring and evaluation systems, and publication and dissemination of selected public sector information to the public.
5. Strengthening of the capacity of the: (a) Borrower's Ministry of Finance and Economy to implement accounting policies and procedures, and (b) Borrower's Financial Inspection Department within the Borrower's State Specialized Supervision Agency to carry out internal audits, including to standardize and centralize control of financial information systems.

Part B: Modernizing Public Administration and Civil Service

Strengthening institutional arrangements and capacity of the Borrower in management, financing, coordination and accountability of its civil service, including:

1. Enhancement of the coordination between the Borrower's Civil Service Council and the Borrower's Ministry of Finance and Economy and capacity of civil service staff, including the design and conduct of competitive civil service recruitment, development and carrying out of training programs on civil service management and policy formulation, review of the civil service structure in selected agencies, and implementation of recommendations prepared by said review.
2. Development and implementation of a human resource management and information system within the Borrower's Civil Service Council and the Borrower's Ministry of Finance and Economy to manage civil service staffing, deployment and personnel projections, and control civil service compensation and benefit costs, including procurement and installation of hardware and communication equipment, and draft regulations for the implementation of said system.
3. Rationalization of the civil service wage bill, incentives and employment, by revising the civil service compensation policy, developing and implementing reforms to the civil service, and strengthening the capacity of the Borrower's Civil Service Council and the Borrower's Ministry of Finance and Economy to monitor and control the fiscal impact of civil service compensation and employment reforms.
4. Establishment of selected accountability mechanisms, including the enforcement of the Civil Service Code of Ethics, development of regulations for annual declaration of civil servants annual income and assets, and development of regulations for organizational and individual performance evaluation.

Part C: Project Management

1. Strengthening the capacity of the Borrower's Ministry of Finance and Economy to implement the Project, including day-to-day management, monitoring and coordination of Project activities, procurement, accounting, disbursement, and financial management, including the provision of technical assistance, training, and equipment.
2. Carrying out of annual audits of the accounts and financial statements of expenditures relating to the Project.

* * *

The Project is expected to be completed by March 31, 2007.

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, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

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.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$150,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) The procedures to be followed for the procurement of goods under national competitive bidding, advertised locally, under clause (a) of this paragraph 1, Part C, Section I shall be as set forth in the Annex to this Schedule 3.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$100,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations 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 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

(a) With respect to all contracts for goods, regardless of the cost, procured in accordance with: (i) Part B of this Section; and (ii) paragraph 1 of Part C of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first contract for goods estimated to cost less than \$30,000 equivalent and procured under paragraph 2 of Part C of this Section, the following procedures shall apply:

- (i) prior to the execution of any contract 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 Sections I and 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, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto 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, 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. Least-cost Selection

Services for the carrying out of audits under Part C.2 of the Project estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$120,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services under Parts A and B of the Project estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$400,000 equivalent, 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 of individual consultants under Parts A and C.1 of the Project, up to an aggregate amount not to exceed \$600,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the

Consultant Guidelines, or selected on a sole-source basis if the provisions of paragraph 5.4 of the Consultant Guidelines are met, subject to prior approval of the Association.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every six (6) months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants: (i) to be selected on a sole source basis, the qualifications and experience of the consultants, and the terms of reference, shall be furnished to the Association for its prior review and approval; and (ii) estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, and the terms of reference and terms of employment of the consultants, shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

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 Consultant Guidelines shall apply.

Annex to Schedule 3

National Competitive Bidding

I. Advertising

- (a) The Invitation for Bids shall be advertised in a newspaper of national circulation in Mongolia. In addition, the Invitation for Bids shall be posted at the relevant public venue or such other place or places as shall be appropriate.
- (b) The Invitation for Bids may be in the Mongolian language and in such other language that may be deemed appropriate by the Borrower's department or agency concerned, and shall include the information referred to in the model Invitation for Bids set forth in the Standard Bidding Documents for the Procurement of Goods published by the International Bank for Reconstruction and Development in January 1995, as revised in March 2000 and January 2001.
- (c) In the case of procurement of works, the time period for bid submission after issue of the Invitation for Bids shall be sufficient to allow potential bidders a reasonable time to prepare and submit bids. It shall be no less than 30 calendar days, unless otherwise agreed with the Association.

II. Eligibility

- (a) The eligibility of bidders shall be as defined under the Bank's Guidelines for Procurement under IBRD Loans and IDA Credits, published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines).
- (b) Foreign bidders shall be allowed bid if they wish to do so.
- (c) The formation of joint ventures between foreign and local firms shall not be a condition of eligibility. Foreign bidders shall be allowed to bid alone. Nevertheless, foreign bidders may be required to appoint a local agent or intermediary in Mongolia as a condition of award of contract.
- (d) The Borrower shall not require bidders or potential bidders to be registered with an authority of the Borrower as a condition of bidding.

III. Bidding

- (a) In addition to the Invitation for Bids, the bidding documents shall include the following:
 - (i) Instructions to Bidders including the bid evaluation criteria.

- (ii) Conditions of Contract.
 - (iii) Technical Specifications.
 - (iv) Bid Form and Price Schedules.
 - (v) Performance Security (optional for contracts estimated to cost below a dollar equivalent amount to be agreed with the Association)
 - (vi) Bills of Quantities or breakdown of lump sum pricing as the case may be.
- (b) Bids may be expressed in Togrog or in foreign currency as set forth in the Invitation for Bids. If the currency of payment set forth in the Invitation for Bids is Togrog, the Invitation for Bids may indicate that there is no obligation on the part of the Borrower's department or agency soliciting the bids to convert the amounts to be paid into foreign currency.
 - (c) Bidding documents may be in the Mongolian language or in such other language that may be deemed appropriate by the Borrower's department or agency soliciting the bids.
 - (d) Bids may be delivered by mail or by hand at the place set forth for such purpose in the Invitation for Bids.
 - (e) Bids shall be opened publicly immediately following the bid closing time specified in the Invitation for Bids, allowing representatives of the bidders to attend if they so desire. Bids shall not be modified after bid opening except to correct arithmetical errors. All bids shall be opened at the same time and Minutes of Bid Opening shall be prepared by the Borrower's representative supervising the opening and signed by all bidders who chose to attend.

IV. Evaluation of Bids

- (a) Award of goods and works contracts shall be made to the lowest evaluated responsive bid and any bid award based on a point system, or any other criteria other than the lowest evaluated responsive bid, shall be deemed invalid.
- (b) Price negotiations with bidders shall not be undertaken before award of contract except as provided in paragraphs 2.59 to 2.62 of the Guidelines.
- (c) No preference whatsoever shall be given to a domestic bidder over foreign bidders or to a State Owned Enterprise (SOE) over a non-SOE. Bids shall be compared on delivered price inclusive of any prevailing duties.
- (d) An SOE in the Borrower's country may be awarded a contract only if it can establish that it: (i) is legally and financially autonomous, and (ii) operates under

commercial law. No dependent agency of the Borrower or Sub-borrower shall be awarded a contract for goods, works or services under the Project.

- (e) Bids shall not be automatically rejected for lack of effective competition solely on the basis of the number of bidders or because all bid prices substantially exceed the budget allocated. The provisions of Article 23 of the Public Procurement Law of Mongolia published on April 14, 2000, shall apply only as modified by the provisions on rejections of bids set forth in paragraphs 2.59 to 2.62 of the Guidelines.
- (f) Award of a contract shall be made within the period specified in the bidding documents, which shall be determined in each case based on the complexity of the contract and the approval.
- (g) A bid evaluation report shall be prepared by the Borrower's department or agency soliciting the bids, setting out a record of all bids submitted, the reasons for disqualification of any bids, the evaluation criteria, weighting and evaluation of all responsive bids, the recommendation of award and, if award is recommended to other than the lowest responsive bidder, the reasons therefor. The Borrower's department or agency soliciting the bids shall furnish to the Association an English translation of such bid evaluation report pursuant to paragraphs 2 and 3 of Appendix 1 of the Guidelines.

V. Right to Inspect/Audit

A provision shall be included in all NCB works and goods contracts financed by the Association requiring suppliers and contractors to permit the Association to inspect their accounts and records relating to the performance of the contract, and to have them audited by auditors appointed by the Association.

SCHEDULE 4

Implementation Program

Project Management

1. The Borrower shall maintain, until completion of the Project, the Project Steering Committee within its Ministry of Finance and Economy, headed by the Vice-Minister or the State Secretary of the Ministry of Finance and Economy and comprising representatives of the Borrower's Ministry of Education, Culture and Science; Ministry of Social Welfare and Labor; Ministry of Health; and Civil Service Council; and provided with sufficient resources and such powers, responsibilities, organization and funding as shall be required to enable it to review progress of Project implementation and undertake overall coordination and monitoring of Project activities, all with terms of reference satisfactory to the Association.

2. The Borrower shall maintain, until completion of the Project, the Project Coordination Unit within its Ministry of Finance and Economy, headed by a full-time Director-level official of the Ministry of Finance and Economy, provided with sufficient resources and such powers, responsibilities, organization and funding as shall be required to enable it to carry out the day-to-day administration of Project activities, including procurement, accounting, disbursement, and financial management, and staffed with competent personnel in adequate numbers, including a Project coordinator, a disbursement/procurement specialist, a financial management specialist/Project accountant, and an administrative assistant, all under terms of reference acceptable to the Association.

3. The Borrower shall maintain, until completion of the Project, one Working Group headed by the Director of the Fiscal Policy and Coordination Department of its Ministry of Finance and Economy, and comprising representatives of the Borrower's Ministry of Finance and Economy; Ministry of Education, Culture and Science; Ministry of Social Welfare and Labor; Ministry of Health; Civil Service Council; and State Property Committee; and provided with sufficient resources and such powers, responsibilities, organization and funding as shall be required to enable it to undertake overall coordination and monitoring of Project activities, all with terms of reference satisfactory to the Association.

4. The Borrower shall maintain, until completion of the Project:

- (a) one Sub-Working Group headed by the Director of the Economic Policy and Planning Department of its Ministry of Finance and Economy;
- (b) one Sub-Working Group headed by the Director of Finance and Economy Department of its Ministry of Education, Culture and Science;

- (c) one Sub-Working Group headed by the Director of Population and Social Welfare Department of its Ministry of Social Welfare and Labor; and
- (d) one Sub-Working Group headed by a representative of its Civil Service Council;

each provided with sufficient resources and such powers, responsibilities, organization and funding as shall be required to enable each of said Sub-working Groups to undertake overall coordination and monitoring of Project activities, and staffed with competent personnel in adequate numbers, and all with terms of reference satisfactory to the Association.

5. The Borrower shall:

- (a) establish, and thereafter maintain until completion of the Project, a financial management system for the Project, acceptable to the Association, and train its relevant staff in the use of said system; and
- (b) prepare, adopt, and thereafter implement, a financial management manual for the Project, acceptable to the Association, setting forth policies and detailed procedures for internal control, flow of funds, accounting and auditing, and maintenance of records; and
- (c) not amend, revise, cancel, waive or abrogate any provisions of the financial management manual without the prior concurrence of the Association.

6. The Borrower shall, by December 31, 2003, retain an independent auditor acceptable to the Association, under terms of reference satisfactory to the Association, to be selected in accordance with paragraph 1 of Part C of Section II of Schedule 3 to this Agreement, to carry out annual audits of Project accounts and financial statements in accordance with the provisions of Section 4.01 of this Agreement.

Project Implementation

7. For purposes of the carrying out of the Project, the Borrower shall, by May 31 and November 30 of each calendar year, commencing May 31, 2004, until completion of the Project, prepare and furnish to the Association, for its review and approval a semi-annual work program for the Project activities to be carried out during the following six month period and, thereafter, carry out such program in a manner satisfactory to the Association.

Monitoring and Reports

8. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about September 30, 2005, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by November 30, 2005, or such later date as the Association shall request, the report referred to in sub-paragraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) through (4) 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 \$500,000 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 shall be limited to an amount equivalent to \$300,000 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 SDR 1,500,000.
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 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 the 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.