

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4618-MN

Financing Agreement

(Development Policy Financing)

between

MONGOLIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 26, 2009

FINANCING AGREEMENT

AGREEMENT dated June 26, 2009, entered into between MONGOLIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement, and (b) the Recipient’s maintenance of an appropriate macro-economic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to twenty six million nine hundred thousand Special Drawing Rights (SDR 26,900,000) (variously, “Credit” and “Financing”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are January 15 and July 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.

2.07. The Payment Currency is Dollars.

ARTICLE III — PROGRAM

3.01 The Recipient declares its commitment to the Program and its implementation. To this end:

- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;
- (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
- (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension consists of the following, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

4.02. The Additional Event of Acceleration consists of the following, namely, that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is its Minister of Finance.

6.02. The Recipient's Address is:

Ministry of Finance
Government Building 2
United Nations' Street 5/1
Ulaanbaatar, 210646

Facsimile:
976-11-262272

6.03. The Association's Address is:

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)	1-202-477-6391

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

MONGOLIA

By /s/ S. Bayarsogt

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Arshad Sayed

Authorized Representative

SCHEDULE 1**Program Actions; Availability of Financing Proceeds****Section I. Actions Taken under the Program**

1. The Recipient has excluded in its Revised Budget 2009, thirty (30) projects that do not have feasibility studies and that were originally budgeted for Fiscal Year 2009, in order to improve its capital budget planning and screening process.
2. The Recipient has protected the level of capital expenditures for maintenance of basic infrastructure in the transport, education and health sectors, as evidenced by: (i) the increase in the ratio of capital repairs to new investments from 2.5% (in its Original Budget for Fiscal Year 2009) to 3.4% (in its Revised Budget 2009); and (ii) the allocation of Tugrig 12.4 billion therefor.
3. The Recipient, through MSWL, has prepared a time-bound action plan for refining the roster of beneficiaries of the Child Money Program, in order to reduce the program's coverage and improve its targeting on the poor.
4. The Bank of Mongolia has prepared an action plan for the restructuring/resolving of the Bank currently under the conservatorship, on the basis of the Bank's portfolio diagnostic and audit carried out by an internationally reputable auditor.
5. The Bank of Mongolia has issued Resolution No. 513, dated November 24, 2008, and Resolution No. 286, dated May 20, 2009, requiring that all banks report on a daily and/or weekly basis on key indicators regarding their liquidity and asset quality.
6. The Bank of Mongolia has established a crisis management and systemic risk monitoring task force with adequate functions and powers, qualified staff and sufficient resources to carry out its mandate.
7. The Recipient, through MMRE, has developed and adopted a model investment agreement for the mining sector, clarifying Mongolia's mining policy, including taxation and the state's capital participation in new ventures, and incorporating responsible mining practices consistent with the Equator Principles.
8. The Recipient has transferred sufficient resources to the Mongolia EITI Secretariat in order to finance an independent validation of the Recipient's national EITI Program, scheduled to be completed by March 31, 2010.

Section II. Availability of Financing Proceeds

A. General. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient. Notwithstanding the foregoing, no withdrawal shall be made unless the Association is satisfied, as of the date of the request for such withdrawal: (i) with the Recipient's progress in carrying out the Program; and (ii) that the Recipient's macroeconomic policy framework is appropriate.

B. Allocation of Financing Amounts. The Financing shall be withdrawn in a single tranche. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (expressed in SDR)
Single Tranche	26,900,000
TOTAL AMOUNT	26,900,000

C. Deposits of Financing Amounts. Except as the Association may otherwise agree:

1. the withdrawal from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
2. the Recipient shall ensure that upon the deposit of the amount of the Financing into this account, an equivalent amount in local currency is credited in the Recipient's budget management system, in a manner acceptable to the Association.

D. Excluded Expenditures. The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

E. Closing Date. The Closing Date is October 30, 2009.

SCHEDULE 2**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each January 15 and July 15:	
commencing July 15, 2019 to and including January 15, 2029	1%
commencing July 15, 2029 to and including January 15, 2049	2%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

APPENDIX

Section I. Definitions

1. “Bank,” as used in Section I, paragraph 4, of Schedule 1 to this Agreement, means the commercial financial institution established and operating under the laws of the Recipient, and placed under the conservatorship of the Bank of Mongolia pursuant to the Law of Mongolia on Central Bank, dated 3 September 1996, as amended, and the Bank of Mongolia Governor’s Order No.523 dated 10 December 2008.
2. “Bank of Mongolia” means the Recipient’s central bank, established pursuant to the Law of Mongolia on Central Bank, dated 3 September 1996.
3. “Child Money Program” means the cash benefit to be distributed in size, as stated in provision 10 of the 2007 Annual Budget Law, based on Section 6.1.3 of the Law on Mongolia Development Fund of 6 February 2007, and in accordance with Sections 3.1.1, 4.1, and 8.1 of the Law on Benefit to Mothers, Children and Families, of 5 May 2006.
4. “EITI Program” means the Recipient’s program adopted pursuant to Resolution of Government of Mongolia, dated 28 March 2007, on the Approval of the functions of Governmental bodies participating in the implementation of the Extractive Industries Transparency Initiative, aimed at strengthening governance by improving transparency and accountability in the extractive sector through the publication of payments by private companies and the disclosure of government’s receipts of oil, gas, and mining.
5. “Equator Principles” means the set of principles and financial industry benchmarks for determining, assessing and managing social and environmental risks in project financing developed by private financial institutions in June 2003 and revised in July 2006, and modeled after the environmental standards adopted by the Association, and social policies promoted by the International Financial Corporation.
6. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published

by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
- (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
- (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
- (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the

Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.

7. "Fiscal Year" means a fiscal year of the Recipient which commenced on January 1st and closes on December 31st of each year.
8. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005 (as amended through October 15, 2006) with the modifications set forth in Section II of this Appendix.
9. "MMRE" means the Recipient's Ministry of Mineral Resources and Energy.
10. "Mongolia EITI Secretariat" means the secretariat appointed pursuant to Resolution No. 25, dated 27 March 2007.
11. "MSWL" means the Recipient's Ministry of Social Welfare and Labor.
12. "Program" means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated 20 May, 2009 from the Recipient to the Association declaring the Recipient's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
13. "Single Tranche" means the amount of the Financing allocated to the category entitled "Single Tranche" in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
14. "Tugrig" means the currency of the Recipient.

Section II. Modifications to the General Conditions

The modifications to the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

3. Section 2.05 (renumbered as such pursuant to paragraph 2 above) is modified to read as follows:

“Section 2.05. *Refinancing Preparation Advance*

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

4. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
5. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
6. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

7. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under

the Legal Agreements and the accomplishment of the purposes of the Financing.”

8. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

(b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.

(d) The term “Program Preparation Advance” (renamed as such pursuant to subparagraph 8(c) above) is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.05.”