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CONFORMED COPY

GRANT NUMBER H221-MOG

Financing Agreement

(Rural Education and Development Project)

between

MONGOLIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 23, 2006

GRANT NUMBER H221-MOG

FINANCING AGREEMENT

AGREEMENT dated June 23, 2006, between MONGOLIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

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

ARTICLE II – FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to two million seven hundred eighty seven thousand Special Drawing Rights (SDR 2,787,000) (“Grant”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

ARTICLE III – PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through its Ministry of Education, Culture and Science in accordance with the provisions of Article IV of the General Conditions.

- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement and the Berne Convention for the Protection of Literary and Artistic Works.

ARTICLE IV – EFFECTIVENESS

- 4.01. The Additional Conditions of Effectiveness consist of the following:
- (a) The Recipient shall have established the PMU and retained the services and assigned thereto a Project Coordinator, Procurement Officer and Financial Officer, all pursuant to paragraph 1 of Section I, of Schedule 2 to this Agreement.
 - (b) The Recipient shall have adopted the Project Financial Manual pursuant to paragraph B.1 of Section II of Schedule 2 to this Agreement.
 - (c) The Recipient shall have established, in a manner and substance satisfactory to the Association, a monitoring and evaluation arrangement pursuant to paragraph A.1 of Section II of Schedule 2 to this Agreement.
 - (d) PMU staff shall have been trained in accounting and financial management in a manner and substance satisfactory to the Association.
 - (e) The Recipient shall have established the Steering Committee pursuant to paragraph 2, Section I, of Schedule 2 to this Agreement.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE V – REPRESENTATIVE; ADDRESSES

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

5.02. The Recipient's Address is:

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

Facsimile:

976-11-322253

5.03. The Association's Address is:

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

Cable:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

1-202-477-6391

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

MONGOLIA

By /s/ Namid Bayartsaikhan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Saha Dhevan Meyanathan

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Recipient in enhancing the quality of education in rural primary schools, grades 1-5, by improving students' access to, and use of, quality learning materials and improving teachers' skills through promoting professional networks. The Project consists of the following parts:

Part A: Access for students to improved learning materials and learning conditions

1. Establishment of classroom libraries in rural schools and selected kindergartens, dorms and non-formal education centers through: (a) the provision of enhanced reading materials for grade 1-5 students in all soum and bagh schools, including publishing and printing of local manuscripts, translation of books and manuscripts to Mongolian and Kazakh language, and implementation of a reading materials replenishment voucher system; (b) the provision of training to teachers, librarians, school principals and managers and Education and Culture Development's (ECD) primary grade methodologists in the use of classroom libraries; and (c) the establishment and operation of a digital library for accessing books and manuscripts provided under the Project; and the provision of technical assistance in respect of such activities.
2. Improvement in learning conditions in rural schools through the provision of classroom furniture for grade 1 students and books shelves for grade 1-5 classrooms.
3. Development and implementation of a training program to promote improved teaching strategies among teachers, ECD's primary grade methodologists, school principals and managers, and librarians, including use and care of reading materials, promoting reading fluency and comprehension, promoting improved student writing and critical thinking, use of child friendly teaching practices, selection and translation of world renowned books into Mongolian and Kazakh as resources for teachers on child development and teaching practices; and the provision of technical assistance in respect of such activities.

4. Promotion of reading activities for families and children while at home and at school through development and implementation of a national reading campaign.

Part B: National Monitoring of Quality and Efficiency

1. Strengthening the capacity of the Education Evaluation Center (EEC) within MECS to undertake large-scale assessment activities, including the provision of enhanced equipment to improve the technical capacity and functioning of the EEC, development and implementation of a national assessment in literacy (reading and writing) and mathematics for primary grades 1-5, staff study tours to participate in international assessment of student achievements at the fourth and eight grades; and the provision of technical assistance in respect of such activities.
2. Improving efficiency of education policy tools through the carrying out of the following studies on: (a) the teacher compensation structure and its effect on attracting and retaining teachers in rural areas; (b) a review of the school funding formula to consider how compensatory financing might help meet the needs of those in poorer remote schools and support schools serving disabled children in an inclusive environment; (c) a review of performance outcome contracts and development of training materials to improve use of contracts to promote child friendly practices; and (d) a review of the targeting mechanism and development of training materials to improve targeting.

Part C: Project Management and Evaluation

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

SCHEDULE 2

Project Execution

Section I. Project Management

1. The Recipient shall, through MECS, establish and thereafter maintain throughout the implementation of the Project a unit within the Division of Culture, MECS, responsible for the overall coordination and management of Project implementation, headed by Project Coordinator and assigned with a Procurement Officer and Financial Officer, in each case with qualifications and experience and terms of reference satisfactory to the Association, selected and retained pursuant to paragraph C.2 of Section III of this Schedule and the Procurement Plan, and assigned with such powers, funds, staff in adequate numbers and other resources as shall be required to enable the PMU to achieve its purposes.
2. The Recipient shall maintain throughout the implementation of the Project a Steering Committee, chaired by the Recipient's Minister of Education, Culture and Science, and composed of representatives of MECS, Ministry of Finance, a reading expert and local representatives of non-government organizations for purposes of providing overall policy guidelines and coordinating the implementation of the activities under the Project.
3. The Recipient shall adopt and thereafter apply in the implementation of the Project a time-bound action plan, satisfactory to the Association. The Recipient shall not amend, waive or suspend the said time-bound action plan or any provision therein without the prior approval by the Association.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports.

1. The Recipient shall establish and thereafter maintain arrangements, satisfactory to the Association, to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth in the annex to this Schedule. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association

not later than one month after the end of the period covered by such report.

2. For purposes of Section 4.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than six months after the Closing Date.

B. Financial Management, Financial Reports and Audits.

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

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

Section III. Procurement

A. General.

1. **Goods.** All goods required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods.

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

Procurement Method
(a) Shopping
(b) Direct Contracting

C. Particular Methods of Procurement of Consultants' Services.

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Quality-Based Selection
(b) Single-Source Selection
(c) Consultants' Qualifications
(d) Least-Cost Selection
(e) Individual Consultants

D. Review by the Bank of Procurement Decisions.

1. Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) the first three contracts for goods regardless of their individual estimated cost and thereafter each contract for goods estimated to cost the equivalent of \$80,000 or more; (b) all contracts for learning materials regardless of their individual estimated cost; (c) the first two contracts for consultants' services provided by a firm regardless of their

individual estimated cost and thereafter each contract for consultants' services provided by a firm estimated to cost the equivalent of \$50,000 or more; (d) the first contract for consultants' services provided by an individual regardless of its estimated cost and thereafter each contract for consultants' services provided by an individual estimated to cost the equivalent of \$20,000 or more; and (e) all contracts under Single Source Selection and Least-Cost Selection methods regardless of their individual estimated cost. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General.

1. The following table specifies the categories of Eligible Expenditures including taxes that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Grant Allocated (expressed in SDR)	Financing Percentage
1. Goods	480,000	100%
2. Learning Materials	1,259,000	100%
3. Consultancy Services	487,000	100%
4. Local Training	336,000	100%
5. Incremental Operating Costs	155,000	100%
6. Project Preparation Facility Funds	70,000	100%
TOTAL AMOUNT	2,787,000	

B. Withdrawal Conditions; Withdrawal Period.

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is February 29, 2012.

ANNEX

Performance Indicators

Performance indicators (by project component)	Midterm (end of year 3)	Project Completion (end of year 5)
Component 1.1		
Books delivered to rural schools	620,000	50,000
Digital libraries delivered	5 schools (25 computers each)	
Maps delivered to schools	4,000	
Book shelves delivered to schools	4,000	
Grade-1 furniture sets delivered to schools	400	
Use of reading material in schools (frequency in hours per week, as measured in survey assessment)	Increase in 100% relative to baseline in select sample of schools	
Component 1.2		
Educators trained	4,000	
Teaching practices and in-class time spent in reading activities (as measured in survey assessment)	Increase in 100% relative to baseline in select sample of schools	
Component 2.1		
TIMMS	TIMMS completed	
5 th grade assessment	Assessment completed	
Component 2.2		
Policy notes disseminated	4	

APPENDIX

Section I. Definitions

1. “Berne Convention for the Protection of Literary and Artistic Works” means the Convention for the creation and the protection of literary and artistic works adopted on September 9, 1886, and entered into force on December 5, 1887. The said Berne Convention entered into force for Mongolia on March 12, 1998.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
4. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
5. “Steering Committee” means the committee to be established by the Recipient within MECS pursuant to paragraph 2, Section I, Schedule 2 to this Agreement.
6. “MECS” means the Recipient’s Ministry of Education, Culture and Science and any successor thereto.
7. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
8. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated February 28, 2006, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
9. “Project Preparation Advance” means the advance referred to in Section 2.07 of the General Conditions, granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on December 9, 2005, and on behalf of the Recipient on December 9, 2005.

10. "Project Management Unit" and the acronym "PMU" mean the unit established by the Recipient pursuant to paragraph 1 of Section I of Schedule 2 to this Agreement.
11. "Project Financial Manual" means the manual adopted by the Recipient pursuant to paragraph B.1 of Section II of Schedule 2 to this Agreement as the same may be amended with the prior agreement by the Association.