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CREDIT NUMBER 4776 -MN

Financing Agreement

(Second Development Policy Financing)

between

MONGOLIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 26, 2010

Public Disclosure Authorized

FINANCING AGREEMENT

AGREEMENT dated October 26, 2010, 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 macroeconomic 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 nineteen million seven hundred thousand Special Drawing Rights (SDR 19,700,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 April 15 and October 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 United States 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 Recipient's macroeconomic policy framework and 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 Events 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 Additional Condition of Effectiveness consists of the following, namely, that the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework.

5.02. The Effectiveness Deadline is the date a hundred and twenty (120) 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, 15160

Facsimile:

976-51-262272

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. Bayartsogt

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Coralie Gevers

Authorized Representative

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

The actions taken by the Recipient under the Program include the following:

1. The Recipient has amended the FY2010 Budget to:
 - (i) improve the public investment plan by reducing in one hundred ninety seven (amounting to forty billion Tugrig) the number of projects that: (A) do not have the necessary feasibility studies (technical drawings and accurate cost estimates); and (B) do not meet national priorities; and
 - (ii) account for the contingent liabilities from contractor-funded projects by specifying these in the Amended FY2010 Budget.
2. The Recipient has prioritized the level of capital expenditures for maintenance of basic infrastructure (including the Road Fund), as evidenced by: (i) the increase in the ratio of capital repairs to new investments from 6.1% (in the FY2009 Revised Budget) to 6.5% (in the FY2010 Budget); and (ii) the allocation of 28.7 billion Tugrig therefor.
3. The National Statistical Office has approved the Proxy Means Test methodology as the official targeting mechanism for the provision of social welfare benefits in Mongolia.
4. The MoSWL has completed a proposal defining the parameters of the new poverty-targeted benefit program, and has submitted said proposal to the Cabinet for approval.
5. BoM has: (i) completed a special banks assessment of seven (7) selected banks; and (ii) commenced a similar assessment of another three (3) selected banks, with the assistance of internationally reputable auditors.
6. BoM has adopted and submitted to the Parliament a comprehensive bank restructuring strategy, which includes, as a last resort tool, a stand-by bank recapitalization facility with proper covenants to protect the public funds.
7. The Recipient has revised the regulation on operations and processes of the Mining Cadastre.
8. The Recipient has submitted the documentation required by the International EITI Board to assess the compliance of the Recipient's national EITI Program.

9. The Recipient has placed online a searchable database of environmental impact assessments for mining and other projects.

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.
- B. Allocation of Financing Amounts.** The Financing is allocated in a single tranche, from which the Recipient may make withdrawals of the Financing. 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 Withdrawal Tranche	19,700,000
TOTAL AMOUNT	19,700,000

C. Withdrawal Tranche Release Conditions

No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied (a) with the Program being carried out by the Recipient; and (b) with the appropriateness of the Recipient's macroeconomic policy framework.

- D. Deposits of Financing Amounts.** Except as the Association may otherwise agree:
1. all withdrawal(s) 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 each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.
- E. 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.

F. Closing Date. The Closing Date is June 30, 2011.

SCHEDULE 2**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each April 15 and October 15	
commencing April 15, 2021 to and including October 15, 2030	1%
commencing April 15, 2031 to and including October 15, 2050	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. “Amended FY2010 Budget” means the FY2010 Budget as amended pursuant to the budgetary amendment law, dated July 9, 2010.
2. “BoM” means the Recipient’s central bank, established pursuant to the Law of Mongolia on Central Bank, dated September 3, 1996, as amended to the date of this Agreement.
3. “Cabinet” means the Recipient’s Cabinet of Ministers.
4. “EITI Program” means the Recipient’s program adopted pursuant to Resolution of the Government of Mongolia dated March 28, 2007, on the “Approval of 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 receipt of oil, gas and mining.
5. “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.
6. "Fiscal Year" means the Recipient's financial year which commences in January 1 and closes on December 31 of the same calendar year.

7. “FY2009 Revised Budget” means the law, dated November 27, 2008 approving the budgetary allocation and accounts for the Recipient’s Fiscal Year 2009 as amended on March 12, 2009.
8. “FY2010 Budget” means the law, dated November 27, 2009 approving the budget allocation and accounts for the Recipient’s Fiscal Year 2010.
9. “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.
10. “International EITI Board” means the board established pursuant to Article 10 of the Articles of Association of The Association of Extractive Industries Transparency Initiative, a non-profit organization established and operating under Norwegian law.
11. “Mining Cadastre” means the state administrative body established pursuant to Article 11 of the Recipient’s Mineral Law (2008), responsible for managing the registration of mineral licenses and the processing of applications for the grant, transfer, pledging surrender and revocation thereof.
12. “MoF” means the Recipient’s Ministry of Finance.
13. “MoSWL” means the Recipient’s Ministry of Social, Welfare and Labor.
14. “National Statistical Office” means the Recipient’s statistical office established pursuant to the Recipient’s Law on National Statistics of 1994, as amended.
15. “Parliament” means the Recipient’s Ulsyn Ikh Khural.
16. “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 May 7, 2010 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.
17. “Proxy Means Test” means the formula set out in the Joint Order No 58/36 of the Chairman of the National Statistical Office and the Minister of Social Welfare and Labor, dated April 5, 2010, to be utilized by the MoSWL to determine the eligibility of beneficiaries of the proposed poverty-targeted welfare program of the Recipient.

18. “Road Fund” means the fiduciary fund established pursuant to Mongolia’s Law on Special Government Funds, dated June 29, 2006, for purposes of developing, maintaining, inspecting and evaluating Mongolia’s roads network.
19. “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.
20. “Tugrig” means the currency unit of the Recipient on the date of this Agreement.

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”.

- (a) 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.”