

CONFORMED COPY

CREDIT NUMBER 4088-MOG

Development Credit Agreement

(Second Private Sector Development Project)

between

MONGOLIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 8, 2005



CREDIT NUMBER 4088-MOG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September, 8, 2005, 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 (the Project), has requested the Association to assist in the financing of the Project;

(B) Parts A, B.1 and B.2 of the Project will be carried out by the Participating Financial Institutions with the Borrower's assistance and, as part of such assistance, the Borrower will make part of the proceeds of the credit provided for in Article II of this Agreement (the Credit) and part of the proceeds of the Revolving Fund (as hereinafter defined) available to the Participating Financial Institutions, as set forth in this Agreement; and

(C) Part B.3 of the Project will be carried out by the Bank of Mongolia with the Borrower's assistance and, as part of such assistance, the Borrower will make part of the proceeds of the Credit available to the Bank of Mongolia as set forth in this Agreement; 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 and in the agreement of even date herewith between the Association and the Trade and Development Bank and the Zoos Bank;

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 May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 6.03(c) of the General Conditions is amended by replacing the words "corrupt or fraudulent" with the words "corrupt, fraudulent, collusive or coercive".

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) “Bank of Mongolia” and the acronym “BOM” mean the Borrower’s central bank, established and operating pursuant to the Law on Central Bank of Mongolia dated September 3, 1996, as amended to the date of this Agreement, and such term includes any successor thereto.

(b) “BOM Financing Agreement” means the agreement referred to in Section 3.02 (c) of this Agreement to be entered into between the Borrower, through MOF, and the Bank of Mongolia for purposes of carrying out Part B.3 of the Project.

(c) “Categories” means, collectively, the categories of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement, and the term “Category” means, individually, any or all the Categories.

(d) “Counterpart Working Group” and the acronym “CWG” mean the committee to be established by the Borrower, through its Ministry of Finance, pursuant to paragraph 1 of Schedule 4 to this Agreement.

(e) “FCD Project” means the Financial Capacity Development Project described in Schedule 2 to the Development Credit Agreement entered into between the Borrower and the Association, dated September 5, 2002 (Cr. 3659-MOG).

(f) “Financing Agreements” means collectively, BOM Financing Agreement, the TDB Financing Agreement and the Zoos Bank Financing Agreement for purposes of carrying out Parts B.1, B.2 and B.3 of the Project, pursuant to Section 3.02(g) of this Agreement.

(g) “Fiscal Year” means the Borrower’s fiscal year, which periods commence on January and end on December in each calendar year.

(h) “Foreign Currency” means any currency other than the currency of the Borrower.

(i) “Free-limit Sub-loan” means a Sub-loan, as so defined, which qualifies as a free-limit Sub-loan pursuant to the provisions of paragraph 4(b) of Schedule 3 to the Project Agreement.

(j) “Investment Enterprise” means a privately owned enterprise established and operating in Mongolia that meets the criteria set out in paragraph 2 of Schedule 3 to the Project Agreement, to which a PFI proposes to make, or has made, a Sub-loan utilizing the proceeds of a Subsidiary Loan, and the term “Investment Enterprises” means, collectively, all such enterprises.

(k) “MOF” means the Borrower’s Ministry of Finance and any successor thereto.

(l) “Part A Special Account” means the account to be opened in accordance with Section 2.02(b) of this Agreement, relating to eligible expenditures under Part A of the Project.

(m) “Parts B and C Special Account” means the account to be opened in accordance with Section 2.02(b) of this Agreement, relating to eligible expenditures under Parts B and C of the Project.

(n) “Participating Financial Institutions” and the acronym “PFIs” mean the Trade and Development Bank, the Zoos Bank and any other financial institution established and operating in Mongolia which may be selected from time to time by the Borrower pursuant to paragraph 3, Section I of Schedule 5 to this Agreement for participation under Part A of the Project; and “Participating Financial Institution” and “PFI” mean any such financial institution.

(o) “Plan of Actions” means any plans, satisfactory to the Association, setting forth the actions required to be taken by any PFI to improve its financial position and performance, including compliance with BOM prudential regulations.

(p) “Procurement Plan” means the Borrower’s procurement plan, dated April 19, 2005, covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation.

(q) “Project Agreement” means the agreement entered into amongst the Association, the Trade and Development Bank, and the Zoos Bank of even date herewith, as the same may be amended from time to time, as well as similar agreement or agreements that the Association may enter into with other PFIs during the implementation of the Project, and such term includes all schedules and agreements supplemental thereto. The term “Project Agreements” means collectively all such agreements.

(r) “Project Coordinator” means the individual employed by the Borrower, pursuant to and for the purposes referred to in paragraph 2 of Schedule 4 to this Agreement.

(s) “Project Management Unit” and the acronym “PMU” mean the project implementation established within the Sector Policy and Investment Department of MOF, pursuant to paragraph 1 of Schedule 4 to this Agreement.

(t) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement.

(u) "PSDC I Project" means the Private Sector Development Project described in Schedule 2 to the Development Credit Agreement entered into between the Borrower and the Association, dated June 18, 1999 (Cr. 3226-MOG).

(v) "Revolving Fund" means the fund established by the Borrower pursuant to paragraph 7, Section II, Schedule 5 to the Development Credit Agreement for Credit 3226-MOG (PSDC I Project).

(w) "Special Accounts" means, collectively, the accounts referred to in Section 2.02(b) of this Agreement, namely: Part A Special Account and Parts B and C Special Account, and the term "Special Account" means, individually, either of the Special Accounts.

(x) "Sub-loan" means, a loan in Togrog or Foreign Currency made or proposed to be made by a PFI to an Investment Enterprise for a Sub-project out of the proceeds of the Credit and the Revolving Fund relented to such PFI under the respective Subsidiary Loan Agreement, and the term "Sub-loans" means, collectively, all of such Sub-loans.

(y) "Sub-loan Agreement" means, the agreement to be entered into between a PFI and an Investment Enterprise for implementing a Sub-project pursuant to paragraph 6 of Schedule 3 to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental thereto. The term "Sub-loan Agreements" means, collectively, all of such agreements.

(z) "Sub-project" means, a specific investment project under Part A of the Project that meets the criteria set forth in paragraph 2(c) of Schedule 3 to the Project Agreement to be carried out by an Investment Enterprise utilizing the proceeds of a Sub-loan, and the term "Sub-projects" means, collectively, all of such Sub-projects.

(aa) "Subsidiary" means any company of which a majority of the outstanding voting stock or other proprietary interest is owned or effectively controlled by a PFI or by any one or more subsidiaries of said PFI or by said PFI and any one or more of its subsidiaries.

(bb) "Subsidiary Loan Agreements" means, collectively, the TDB Subsidiary Loan Agreement, the Zoos Bank Subsidiary Loan Agreement, and any other similar agreement that the Borrower, through MOF, may enter into with any other PFI during Project implementation pursuant to Section 3.02(a) of this Agreement.

(cc) "Subsidiary Loan" means a loan made, or proposed to be made, by the Borrower to a PFI out of the proceeds of the Credit and the Revolving Fund under the

provisions of a Subsidiary Loan Agreement, and the term “Subsidiary Loans” means more than one Subsidiary Loan.

(dd) “Trade and Development Bank” and the acronym “TDB” mean the commercial bank established and operating pursuant to the Borrower’s Banking Law dated September 3, 1996, as amended to the date of this Agreement, and its Charter dated April 22, 1998 (the “TDB Charter”) and such term includes any successor thereto.

(ee) “TDB Financing Agreement” means the agreement referred to in Section 3.02(e) of this Agreement, to be entered into between the Borrower, through MOF, and the Trade and Development Bank, for purposes of carrying out Part B.1 of the Project.

(ff) “TDB Subsidiary Loan Agreement” means the agreement referred to in Section 3.02(a) of this Agreement, to be entered into between the Borrower, through MOF, and the Trade and Development Bank, for purposes of carrying out Part A of the Project.

(gg) “Togrog” means the currency of the Borrower.

(hh) “Zoos Bank” means the commercial bank established and operating pursuant to the Borrower’s Banking Law dated September 3, 1996, as amended to the date of this Agreement, and its Charter dated May 18, 1999, (the “Zoos Bank Charter”) and such term includes any successor thereto.

(ii) “Zoos Bank Financing Agreement” means the agreement referred to in Section 3.02(f) of this Agreement, to be entered into between the Borrower, through MOF, and the Zoos Bank for purposes of carrying Part B.2 of the Project.

(jj) “Zoos Bank Subsidiary Loan Agreement” means the agreement referred to in Section 3.02(a) of this Agreement, to be entered into between the Borrower, through MOF, and the Zoos Bank for purposes of carrying out Part A of the Project.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to six million nine hundred ninety one thousand Special Drawing Rights (SDR 6,991,000).

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: (i) amounts paid (or, if the Association shall so agree, to be paid) by the Borrower on account of withdrawals made by an Investment Enterprise under a Sub-loan to meet the reasonable cost of goods, works and services required for the Sub-project in respect of

which the withdrawal from the Credit Account is requested; and (ii) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for Parts B and C of the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may: (i) for the purposes of Part A of the Project, open and maintain in United States dollars a separate special deposit account in Bank of Mongolia (Part A Special Account); and (ii) for the purposes of Parts B and C of the Project, open and maintain in United States dollars separate special deposit account in a commercial bank (Parts B and C Special Account), both such special deposit accounts in terms and conditions satisfactory to the Association, including in the case of Parts B and C Special Account, appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, each special deposit account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be April 30, 2010, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or 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 15 and December 15 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 15 and December 15, commencing December 15, 2015, and ending June 15, 2045. Each installment to and including the installment payable on June 15, 2025, 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 (3) 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 (6) 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 (5) 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:

- (i) ensure that each of the Participating Financial Institutions performs in accordance with the provisions of the Project Agreement their respective obligations thereunder, including the carrying out of Parts A, B.1 and B.2 of the Project, shall take and cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable each PFI to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance;
- (ii) carry out Part C of the Project through MOF with due diligence and efficiency and in conformity with appropriate administrative, financial, commercial banking, technical, economic and managerial practices and social and environmental practices acceptable to the Association, and shall provide promptly as needed, the funds, facilities, services and other resources required for such purposes; and
- (iii) ensure that BOM performs in accordance with the provisions of BOM Financing Agreement its obligations thereunder, including the carrying out of Part B.3 of the Project, shall take and cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable BOM to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(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 Part C of the Project and coordinate, monitor and evaluate the overall implementation of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) For purposes of financing Sub-projects that meet the criteria set forth in paragraph 2(c) of Schedule 3 to the Project Agreement, the Borrower shall on-lend to each Participating Financial Institution: (i) out of the proceeds of the Credit allocated under Category (1) of the table under paragraph 1 of Schedule 1 to this Agreement, several amounts in Togrog or Foreign Currency, which amounts not to

exceed in the aggregate the equivalent of SDR 6,250,000, or such other amounts as shall be allocated, from time to time, to said Category (1), and (ii) out of the proceeds of the Revolving Fund several amounts in Togrog or Foreign Currency, which amounts not to exceed in the aggregate the equivalent of US\$4,000,000 or such other amounts as shall be available, from time to time, in the Revolving Fund, under subsidiary loan agreements to be entered into between the Borrower, through MOF, and each PFI under terms and conditions satisfactory to the Association, which shall include those set forth in Section II, Schedule 5 to this Agreement.

(b) If at any given time the Borrower determines that a PFI ceases to comply with one or more of the eligibility criteria set forth in Section I of Schedule 5 to this Agreement, the Borrower shall inform the Association and, with the Association's prior approval, take promptly the actions referred to in the last sentence of paragraph 2, Section I of Schedule 5 to this Agreement.

(c) For purposes of carrying out Part B.3 of the Project, the Borrower shall on-lend to the Bank of Mongolia, out of the proceeds of the Credit allocated to Category (4)(c) of the table under paragraph 1 of Schedule 1 to this Agreement, an amount in Foreign Currency not to exceed in the aggregate the equivalent of SDR 66,000, or such other amount as shall be allocated, from time to time, to said Category (4)(c), under a financing agreement to be entered into between the Borrower, through MOF, and the Bank of Mongolia, under terms and conditions satisfactory to the Association, including those set forth in paragraph 1, Section III of Schedule 5 to this Agreement.

(d) For purposes of carrying out Part B.1 of the Project, the Borrower shall on-lend to the Trade and Development Bank, out of the proceeds of the Credit allocated to Categories (2)(a), (3)(a) and (4)(a) of the table in paragraph 1 of Schedule 1 to this Agreement, an amount in Foreign Currency not to exceed in the aggregate the equivalent of SDR 1990,000, or such other amount as shall be allocated, from time to time, to said Categories (2)(a), (3)(a) and (4)(a), under a Financing Agreement to be entered into between the Borrower, through MOF, and the Trade and Development Bank, under terms and conditions satisfactory to the Association, including those set forth in paragraph 2, Section III of Schedule 5 to this Agreement.

(e) For purposes of carrying out Part B.2 of the Project, the Borrower shall on-lend to the Zoos Bank, out of the proceeds of the Credit allocated to Categories (2)(b), (3)(b) and (4)(b), an amount in Foreign Currency not to exceed in the aggregate the equivalent of SDR 199,000, or such other amount as shall be allocated, from time to time, to said Categories (2)(b), (3)(b) and (4)(b), under a financing agreement to be entered into between the Borrower, through MOF, and the Zoos Bank, under terms and conditions satisfactory to the Association, including those set forth in paragraph 2, Section III of Schedule 5 to this Agreement.

(f) The Borrower shall exercise its rights under the Subsidiary Loan Agreements and the Financing Agreements in such manner as to protect the interests of

the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any of the Subsidiary Loan Agreements or the Financing Agreements, or any provision thereof.

Section 3.03. (a) Except as the Association shall otherwise agree: (i) procurement of consultants services required for Part C of 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, as said provisions may be further elaborated in the Procurement Plan; (ii) procurement of goods and consultants' services required for Parts B.1 and B.2, of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Project Agreement; and (iii) procurement of works, goods and services for the Sub-projects financed by a Sub-loan under Part A of the Project shall be governed by the provisions of paragraphs 6(b) and 6(c) of Schedule 3 to the Project Agreement.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.04. 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 purposes of the Project; and

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

Section 3.05. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part B.3 of the Project shall be carried out by BOM pursuant to Section 3.07 of the BOM Financing Agreement; and in respect of Parts A, B.1 and B.2 of the Project shall be carried out by the Participating Financial Institutions pursuant to Section 2.08 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall: (i) maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to Part C of the Project; and (ii) ensure that BOM shall maintain records and accounts adequate to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of Part B.3 of the Project or any part thereof.

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, 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 (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, 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) retain, until at least one (1) year after the Association has received the audit report for, or covering, 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;
- (ii) enable the Association's representatives to examine such records; and

- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 4 of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association quarterly Project Management Reports, in form and substance satisfactory to the Association, each of 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 by disbursement categories and project activities, 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) set forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Project Management Report shall be furnished to the Association not later than forty-five (45) days after the end of the first calendar quarter in which the Effective Date took place, 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 Project Management Report shall be furnished to the Association not later than forty-five (45) days after each subsequent calendar semester, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02(1) of the General Conditions, the following additional events are specified:

(a) Any of the Participating Financial Institutions shall have failed to perform any of its obligations under the Project Agreement, under its respective Financing Agreement or under any of its respective Subsidiary Loan Agreements.

(b) BOM shall have failed to perform any of its obligations under the BOM Financing Agreement.

(c) As a result of events which have occurred after the date of this Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that any Participating Financial Institution will be able to perform its obligations under the respective Project Agreement, Subsidiary Loan Agreements and Financing Agreements.

(d) The charter of any of the Participating Financial Institutions shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial conditions of the respective Participating Financial Institution, or its ability to carry out the Project or to perform any of its obligations under the Project Agreement, the Subsidiary Loan Agreement and the Financing Agreement.

(e) The Law on Central Bank of Mongolia shall have been amended suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial conditions of BOM or its ability to carry out Part B.3 of the Project, or to perform any of its obligations under the BOM Financing Agreement.

(f) Any part of the principal amount of any loan to the PFI having an original maturity of one (1) year or more, other than the Subsidiary Loans under this Agreement, shall have become due and payable in advance of maturity as provided in the related contractual instrument, or any security for any such loan shall become enforceable.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified:

(a) any events specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the relevant Participating Financial Institution or the Bank of Mongolia; and

(b) any event specified in paragraphs (d), (e) and (f) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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, through MOF, has entered into Subsidiary Loan Agreements, acceptable to the Association, with the Participating Financial Intermediaries;

(b) the Borrower, through MOF, has entered into Financing Agreements, acceptable to the Association, with the Participating Financial Institutions.

(c) the Borrower, through the PMU, has updated the financial management manual prepared under the PSDC I Project, in a manner and substance acceptable to the Association;

(d) the Borrower has established the CWG in a manner and substance satisfactory to the Association and pursuant to paragraph 1 of Schedule 4 to this Agreement; and

(e) the Borrower, through MOF, and BOM have entered into the BOM Financing Agreement, acceptable to the Association.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02(b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by Trade and Development Bank and Zoos Bank, and is legally binding upon them in accordance with its terms;

(b) that each of the Subsidiary Loan Agreements entered into between the Borrower and the relevant PFIs have been duly authorized or ratified by the Borrower and the relevant PFIs and are legally binding upon the Borrower and the relevant PFIs in accordance with their terms;

(c) that the BOM Financing Agreement has been duly authorized or ratified by the Borrower and the Bank of Mongolia, and is legally binding upon the Borrower and the Bank of Mongolia in accordance with its terms; and

(d) that each of the Financing Agreements entered into between the Borrower and the relevant PFIs have been duly authorized or ratified by the Borrower and the relevant PFIs, and are legally binding upon the Borrower and the relevant PFIs in accordance with their terms.

Section 6.03. 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 VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
United Nations Street 5/1
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	248423 (MCI) or	(202) 477-6391
Washington, D.C.	64145 (MCI)	

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

MONGOLIA

By: /s/ Norovyn Altankhuyag
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Saha Dhevan Meyanathan
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 so 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) Sub-loans under Part A of the Project	6,250,000	100% of the amounts disbursed
(2) Goods under:		100% of foreign expenditures, 100% of local expenditures (ex-factory costs) and 85% of local expenditures for other items procured locally
(a) Part B.1 of the Project	50,000	
(b) Part B.2 of the Project	66,000	
(3) Consultants' services under:		94%
(a) Part B.1 of the Project	50,000	
(b) Part B.2 of the Project	50,000	
(c) Part C of the Project		
(i) Audits of Project accounts	17,000	
(ii) Others	48,000	
(4) Training under:		100%
(a) Part B.1 of the Project	99,000	

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(b) Part B.2 of the Project	83,000	
(c) Part B.3 of the Project	66,000	
(d) Part C of the Project	40,000	
(5) Incremental Operating Costs	15,000	73%
(6) Unallocated	157,000	
TOTAL	<u>6,991,000</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 the reasonable costs of incremental expenditures incurred by the PMU (which expenditures would not have been incurred absent the Project) including communication, translation costs, office consumables, and printings, but excluding staff salaries and salary supplements and allowances.;

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) a Sub-loan under Category (1) unless the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 3 to the Project Agreement; and

(b) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 662,000, may be made in respect of Categories (3) and (5), on account of payments made for expenditures before that date but after June 1, 2005.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) Sub-loans not exceeding US\$300,000 equivalent each; (b) goods costing less than US\$50,000 equivalent per contract; (c) consultants' services costing less than US\$20,000 equivalent per contract; and (d) training and 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 in its efforts to promote private and financial sector development and reinforcing the institutional capacity of the banking sector by (i) increasing the availability of commercial bank term lending to Investment Enterprises, (ii) strengthening the financial intermediation function and resource allocation capabilities of the Participating Financial Institutions; (iii) strengthening Bank of Mongolia's financial supervision functions; and (iv) underpinning MOF's role in fostering private sector growth and a sound Mongolian financial sector.

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: Sub-projects

Financing specific investment projects through the provision of Sub-loans.

Part B: Institutional Development

1. Enhancing the TDB's financial management and institutional capacity through, *inter alia*: (i) the development of standardized credit risk analysis process, and risk-based internal auditing procedures; (ii) staff training in the areas of credit analysis, risk assessment and risk-based internal auditing; and (iii) the customization of the FNS Treasury System procured under the PSDC I Project, and enhancement of the cost accounting system and system security.
2. Enhancing the Zoos Bank's financial management and institutional capacity through: (i) the development of standardized credit risk analysis process and risk-based internal auditing procedures; (ii) staff training in the areas of credit analysis and risk assessment and risk-based internal auditing; and (iii) the customization of the FNS Treasury System procured under the FCD Project, and enhancement of the cost accounting system and system security.
3. Strengthening BOM's central banking capacities through the provision of staff training and technical assistance to BOM's Supervision Department on the areas of financial and consolidated supervision, credit, market operational and inherent risk assessments, policy analysis and anti-money laundering activities.

Part C: Project Support

Strengthening MOF/PMU's institutional capacity for the implementation of the Project, including the provision of technical assistance and staff training and workshops on monitoring and evaluation, procurement and financial management of Project's activities, and carrying out annual audits of Projects accounts.

* * *

The Project is expected to be completed by October 31, 2009.

SCHEDULE 3

Procurement

Section I. General

A. All goods and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. Shopping. Goods estimated to cost less than US\$50,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

2. Direct Contracting. Goods which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than US\$100,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Selection Based on Consultants' Qualifications. Services estimated to cost less than US\$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

2. Single Source Selection. Services for tasks in circumstances which meet the requirement of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

3. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to prior approval of the Association.

Section IV. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association: (a) all contracts for goods and services (other than consultants' services) procured on the basis of International Competitive Bidding, the first contract for goods procured under shopping procedures regardless of the amount and all contracts for good procured under Direct Contracting; and (b) each contract for consultants' services procured under Quality and Cost-based selection, Selection Based on Consultants' Qualifications, Single Source Selection, and contracts for Consultants estimated to cost the equivalent of \$20,000 or more. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

1. The Borrower shall establish and thereafter maintain the CWG, chaired by the Director, Sector Policy and Investment Department, MOF, and comprising representatives, *inter alia*, from the Debt Management Division of the Treasury Department and Department of Policy and Coordination for Loans and AID, MOF, and Monetary Policy and Research Department, and Supervision Department, BOM, with such functions, powers and funds as shall be required to: (a) determine the eligibility of PFIs to participate in the Project in accordance with the criteria set forth in paragraph 1 of Schedule 5 to this Agreement; (b) coordinate inter-agency Project activities; and (c) address policy issues that might arise from the implementation of the Project.

2. The Borrower shall, throughout the implementation of the Project, maintain the services of the Project Coordinator with qualifications, experience and terms and conditions of employment satisfactory to the Association to, *inter alia*: (a) facilitate the implementation of the various activities under the Project by acting as the central coordinating point between the Association, the CWG, MOF, BOM and the PFIs; (b) assist the CWG to monitor the implementation of the Project by preparing quarterly progress reports and the semi-annual reports referred to in paragraph 4 of this Schedule, all based on information submitted by BOM, MOF and the PFIs; (c) in coordination with MOF, maintain Project records, including summarized accounts, budget and Credit disbursement information; (d) provide guidance and assistance to CWG, BOM and the PFIs in applying World Bank “Guidelines for Procurement under IBRD Loans and IDA Credits” and “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” in the procurement of goods, works and services; (e) provide guidance and assistance to the CWG, BOM and the PFIs in World Bank’s Credits disbursement procedures; (f) organize translation into Mongolian and English languages of Project-related documents and disseminate information about the Project to the Mongolian private sector; (g) assist, as needed the CWG, BOM and PFIs in processing withdrawal applications of the proceeds of the Credit to be furnished to the Association; (h) assist CWG in preparing the Borrower’s contribution to the Project Implementation Completion Report, including the Operational Plan therein; (i) monitor, with the assistance of BOM, the PFIs’ continued compliance with the criteria for PFI eligibility; and (j) monitor the implementation of the Project and submit semi-annual reports to the Association consistent with the Financial Management System referred to in Section 4.02 of this Agreement.

3. For the purposes of carrying out the training activities under Part C of the Project, the Borrower shall, through the CWG, prepare and furnish to the Association for its approval the various training plans, and thereafter implement such training plans as so approved.

4. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, set forth in Schedule 7 to this Agreement, 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 March 31 and September 30 of each year, commencing on March 31, 2006, a semi-annual report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, 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;

(c) review with the Association, by April 30 and October 31 of each year, commencing on April 30, 2006, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, 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; and

(d) on or about October 1, 2007, a mid-term report in respect of the period from the July 1, 2005 to September 30, 2007 and thereafter on October 31, 2007, review said report with the Association, and promptly 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 said report and the Association's views on the matter.

SCHEDULE 5

PFI's' Eligibility Criteria

Section I. Eligible Participating Financial Institutions

1. PFI's shall meet the following eligibility criteria to participate in the carrying out of Part A of the Project:

(a) compliance during the preceding six (6) months period to the application for participation or review on PFI's continuance participation, as confirmed by written report issued by BOM with BOM prudential regulations relating to capital adequacy, maximum single borrower exposure, insider lending, loan loss reserves and net foreign exchange exposure;

(b) compliance with the Borrower's tax laws and regulations during the preceding Fiscal Year;

(c) a minimum of five (5) years in operations;

(d) satisfactory financial performance as confirmed by external audit of financial statements by independent auditors acceptable to the Association for the prior three (3) fiscal years; and updated information of satisfactory financial performance for the preceding twelve (12) months period as confirmed by BOM through its on-going supervision;

(e) satisfactory portfolio quality (demonstrated by, *inter alia*, performing loan ratio, sectoral exposure and quality of collateral), management quality, staffing and credit policies and procedures (demonstrated by a written credit policy approved by the Board of Directors and enforced by management, with the close oversight of the lending process by the Board), as confirmed by BOM through its on-going supervision; and

(f) compliance with the respective Plan of Actions, if applicable.

2. The Borrower, through the CWG, shall determine, on a quarterly basis, the PFI's continuing eligibility to participate under Part A of the Project, based on the supervision of, and information provided by, BOM therefor. This continuing eligibility shall be based on the PFI's compliance with the eligibility criteria set forth in paragraph 1, Section I of this Schedule, as determined by the CWG based on written status updates issued by BOM, and, after twelve (12) months after the date of this Agreement, the following additional performance under Part A of the Project: (a) the PFI has made at

least three (3) Sub-loans during the previous calendar year; and (b) no more than 10% of the PFI's Sub-loans portfolio is in non-performing status. In the event that a PFI is found not to be in compliance with the eligibility criteria, the Borrower, through CWG, shall, with the prior approval of the Association, determine whether the PFI concerned shall prepare and implement a Plan of Actions or be excluded from the Project.

3. With the prior approval of the Association, the Borrower, through the CWG, acting upon a written recommendation and justification made by BOM, may allow additional commercial banks that meet the eligibility criteria set forth in paragraph 1, Section I of this Schedule to participate in the carrying out of Part A of the Project. In such event, the Borrower, through MOF, shall enter into a Subsidiary Loan Agreement with the selected commercial bank, under terms and conditions satisfactory to the Association, including those set forth in Section II of this Schedule, and the Association may enter into a Project agreement with the new PFI.

Section II. Subsidiary Loan Agreement: Terms and Conditions

1. Subsidiary Loans shall be made in Togrog or in Foreign Currency. Unless the Association shall otherwise agree, eighty five percent (85%) of the principal amount of each Subsidiary Loan shall be funded out of the proceeds of the Credit allocated, from time to time, to Category (1), and fifteen percent (15%) out of the proceeds of the Revolving Fund. The principal amount of the Subsidiary Loans shall be in an amount equal to the principal amount of the corresponding Sub-loan to be made therefrom.

2. The principal amount of the Subsidiary Loan shall have a maturity corresponding to the maturity of the Sub-loan financed therefrom, plus six (6) calendar months. The principal amount of a Subsidiary Loan made in Togrog shall be repaid by the PFI in Togrog. The principal amount of a Subsidiary Loan made in Foreign Currency shall be repaid by the PFI in the same Foreign Currency.

3. Interest on the principal amount withdrawn and outstanding of a Subsidiary Loan made in Togrog shall be at a variable annual rate of interest, adjustable every six month, at a rate equal to the average rate for Togrog demand deposits published by BOM for the preceding twelve (12) months; provided, however, that the Borrower and the Association shall review annually on April 30 of each year, commencing on April 30, 2007, the Togrog demand deposits basis to determine if it provides a positive onlending rate in real terms, and, thereafter, make adjustments as shall be necessary to maintain a positive onlending rate in real terms.

4. Interest on the principal amount withdrawn and outstanding of a Subsidiary Loan made in Foreign Currency shall be payable at a variable annual rate of interest, adjustable

every six (6) month, equal to the London inter-bank offered rate for six (6) months deposits (LIBOR) in Dollars plus a margin of one percentage points (1%).

5. Commitment charges shall be payable on the amount so on-lent but not yet withdrawn from time to time at the rate payable by the Borrower under Section 2.04 of this Agreement.

6. The Subsidiary Loan Agreements shall include:

(a) the obligation of each PFI to carry out Part A of the Project in accordance with the provisions of the Project Agreement, in particular those provided, or to be provided, in Schedule 2 therein;

(b) the obligation of each PFI to take all such actions as shall be necessary to comply, at all times, with the eligibility criteria set forth in Section I of this Schedule; and

(c) provisions establishing the right of the Borrower to suspend the right of a PFI to receive additional Subsidiary Loans if such PFI has failed to maintain one (1) or more of the eligibility criteria set forth in Section I of this Schedule, or to comply with the Plan of Action referred to in paragraph 2 therein; provided, however, that Sub-loans made by the PFI prior to the above-mentioned suspension would continue to be funded out of the proceeds of the corresponding Subsidiary Loan so as not to affect the financial viability of the Sub-project being financed therefrom.

7. The provisions relating to the Revolving Fund set forth in paragraph 7, Section II of Schedule 5 to the Development Credit Agreement for Credit 3226-MOG (PSDC I Project) are hereby amended by the relevant provisions of this Agreement.

Section III. Financing Agreement: Terms and Conditions

1. BOM Financing Agreement shall include the following terms and conditions:

(a) the obligation of BOM to carry out Part B.3 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, commercial, central banking, technical, economic and managerial practices and shall provide promptly as needed, the funds, facilities, services and other resources required for such purposes;

(b) the obligation of BOM to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Part B.3 of the Project or any part thereof.

(c) the obligation of BOM to prepare and furnish to the Association, for its approval, semi-annual training plan. For such purposes, on June 1 and December 1 of each year, commencing on December 1, 2005, BOM shall prepare and furnish to the Association proposed training programs for the forthcoming six-calendar months, and thereafter implement such plans as so approved;

(d) the obligation of BOM to carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisitions, resettlement) in respect of Part B.3 of the Project;

(e) the obligation of BOM to monitor PFIs' compliance with the eligibility criteria and, if applicable, the Plan of Actions referred to in paragraphs 1 and 2 of Section I of this Schedule, and to provide written reports to the CWG relating to the PFIs' continuance compliance, the recommendation for adoption of Plan of Actions, the PFIs' suspension for receiving additional Subsidiary Loans, and for continuing participating under Part A of the Project.

(f) the undertaking by BOM to refrain from taking any action, including revisions, amendments or waivers to existing, and issuance of, new Prudential Regulations, that would impede the PFIs to meet the eligibility criteria set forth in paragraphs 1 and 2, Section I of this Schedule.

(g) the following on-lending terms and conditions:

- (i) the principal amount of the loan shall be equivalent of the aggregate amount of the proceeds of the Credit withdrawn from time to time from the Credit Account under Category (4)(c);
- (ii) the principal amount of the loan shall be repaid in twenty (20) years including a grace period of five (5) years. The principal amount of the loan shall be made in Foreign Currency and shall be repaid by BOM in the same Foreign Currency;
- (iii) interest on the principal amount of the loan withdrawn and outstanding from time to time shall be payable by BOM at a fixed rate of one percent (1%) per annum; and
- (iv) commitment charges shall be payable on the amount so on-lent but not yet withdrawn from time to time at the rate payable by the Borrower under Section 2.04 of this Agreement.

2. The TDB Financing Agreement and the Zoos Bank Financing Agreement each shall include the following on-lending terms and conditions:

(a) the principal amount of the loan under the TDB Financing Agreement and the Zoos Bank Financing Agreement shall be the equivalent of the aggregate amount of the proceeds of the Credit withdrawn from time to time from the Credit Account under Categories (2)(a), (3)(a) and (4)(a) with respect to the TDB Financing Agreement, Categories (2)(b), (3)(b), and (4)(b) with respect to the Zoos Bank Financing Agreement;

(b) the principal amount of each of the loans shall be repaid in twenty (20) years including a grace period of five (5) years. The principal amount of each of the loans made in Foreign Currency shall be repaid by the Trade and Development Bank and the Zoos Bank, respectively, in the same Foreign Currency;

(c) interest on the principal amount of the loans withdrawn and outstanding from time to time shall be payable by the Trade and Development Bank and the Zoos Bank at a fixed rate of two percent (2%) per annum; and

(d) commitment charges shall be payable on the amount so on-lent but not yet withdrawn from time to time at the rate payable by the Borrower under Section 2.04 of this Agreement.

SCHEDULE 6

Special Accounts

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Category (1) in respect of Part A Special Account, and Categories (2), (3), (4) and (5) in respect of Parts B and C Special Account 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; provided, however, that notwithstanding the provisions of paragraph 4(b) of Schedule 3 to the Project Agreement, payments for expenditures to be financed out of the proceeds of a Free-Limit Sub-loans may be made out of the Part A Special Account before the Association shall have authorized withdrawals from the Credit Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Association shall subsequently authorize such withdrawals; and

(c) the term “Authorized Allocation” means an amount equivalent to US\$1,000,000 in respect of the Part A Special Account, and an amount equivalent to US\$150,000 in respect of the Parts B and C Special Account, to be withdrawn from the Credit Account and deposited into the Special Accounts pursuant to paragraph 3(a) of this Schedule.

2. Payments out of the respective 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective 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 respective 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 respective Special Account such amount or amounts as the Borrower shall have requested.

- (b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposits into the respective 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 respective 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 respective 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 respective 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 any 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 Accounts;

(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 for the respective Special Account, 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 respective 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 any 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 respective 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 any 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 any 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 Accounts.

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

SCHEDULE 7

Performance Indicators

Project Development Objective	Project Outcome Indicators	Use of Project Outcome Information
To promote private and financial sector development and reinforcing the institutional capacity of the banking sector.	Increased intermediate-term (>1 yr) lending financed by PFIs to commercially, technically and financially viable borrowers/projects. Quality of intermediate-loan portfolio equal or better than that of overall PFI portfolio. Institutional capacity of PFIs and BOM strengthened in key areas supported by the project.	Regular monitoring of project implementation by government and IDA team. Joint mid-term review at end of project year 2. Project review and assessment after closure.
Intermediate Outcomes	Intermediate Outcome Indicators	Use of Intermediate Outcome Monitoring
<p><u>Component 1</u> Increased private sector investment in diversified economic sectors.</p> <p>Majority sub-borrowers reported business improvement in at least three key areas.</p>	<p>Increased number of private companies which benefit from the Project. Improved diversification of PFIs' loan portfolios. Quality of sub-loan portfolio equal or better than that of overall PFI portfolio.</p> <p>Improved access to new sectors, markets, or business activities. New jobs created. Increased sales. New or upgraded technology.</p>	Regular monitoring of project implementation by government and IDA team. Joint mid-term review at end of project year 2. Project review and assessment after closure.
<p><u>Component 2</u> PFIs institutional capacity strengthened in key areas supported by the project, especially with regard to credit risk assessment, financial control, risk-based internal audits, and</p>	<p>Policies and procedures developed and adopted. Core banking systems integrated and enhanced. Staff training in conformity with medium-term training program.</p>	Regular monitoring of project implementation by government and IDA team. Joint mid-term review at end of project year 2. Project review and assessment after closure.

<p>human resources management.</p> <p>BOM's bank supervision capacity enhanced in key areas supported by the project, especially with regard to assessment of commercial bank risk profile and supervisory practices.</p>	<p>Staff trained effectively transfer knowledge to job.</p> <p>A training coordinator is appointed for Supervision Department.</p> <p>Bank supervisors receive training in accordance with medium-term training program.</p> <p>Staff trained effectively transfer knowledge throughout institution.</p>	
<p><u>Component 3</u> Support project implementation.</p>	<p>Timely identification and resolution of main policy problems affecting project implementation, including compliance with the legal documents.</p> <p>Good quality services to PIUs as measured by average time for claim processing and responding to PIUs requests.</p> <p>Timely preparation/submission of FMRs, annual audit reports and mid-term and post evaluations.</p>	<p>Regular monitoring of project implementation by government and IDA team.</p> <p>Joint mid-term review at end of project year 2.</p> <p>Project review and assessment after closure.</p>