

CONFORMED COPY

CREDIT NUMBER 3334 MOG

Development Credit Agreement

(Financial Sector Adjustment Credit)

between

MONGOLIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 27, 2000

CREDIT NUMBER 3334 MOG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 27, 2000, between MONGOLIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter dated March 28, 2000, describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's financial sector (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof; and

(B) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit in two tranches and one floating tranche as hereinafter provided;

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 December 2, 1997) with the modifications thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 12, is modified to read:

"'Project' means the program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made.";

(b) A new paragraph (c) is added to Section 3.04 to read:

"If the Association shall at any time receive less than the full amount then due and payable to it under the Development Credit Agreement, the Association shall have the right to allocate and apply the amount so received in any manner and for such purposes under the Development Credit Agreement as the Association shall in its sole discretion determine."

(c) Section 4.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the deposit account specified in Section 2.02 of the Development Credit Agreement.";

(d) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions";

(e) The last sentence of Section 5.03 is deleted;

(f) Section 9.06 (c) is modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.";

(g) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07; and

(h) Section 11.01 is modified by replacing, in the second sentence, the word "radiogram" with the word "facsimile" and adding a new sentence at the end of the said Section to read:

"Deliveries made by facsimile transmission shall also be confirmed by mail."

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 meaning.

(a) "Deposit Account" means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to twenty four million Special Drawing Rights (SDR24,000,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of

this Section, the Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in its central bank, a deposit account in Dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Credit shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association, (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

(d) No withdrawals shall be made from the Credit Account after the aggregate of the proceeds of the Credit withdrawn from the Credit Account shall have reached the equivalent of SDR9,000,000, unless the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association:

(i) with the progress achieved by the Borrower in the carrying out of the Program;

(ii) that the macroeconomic policy framework of the Borrower is satisfactory, as measured on the basis of indicators agreed between the Borrower and the Association; and

(iii) that the actions described in Schedule 2, Section I to this Agreement have been taken.

If, after said exchange of views, the Association is not so satisfied, the Association may give notice to the Borrower to that effect and, if within 90 days after such notice, the Borrower shall not have taken steps satisfactory to the Association, in respect of (i), (ii) and (iii) above, then the Association may, by notice to the Borrower, cancel the unwithdrawn amount of the Credit or any part thereof.

(e) Without limitations upon provisions of paragraph (d) of this Section, the Borrower may, at any time after the effectiveness of this Agreement, withdraw from the Credit Account an amount of SDR6,000,000, unless the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association:

(i) with the progress achieved by the Borrower in the carrying out of the Program;

(ii) that the macroeconomic policy framework of the Borrower is satisfactory, as measured on the basis of indicators agreed between the Borrower and the Association; and

(iii) that the actions described in Schedule 2, Section II to this Agreement have been taken.

Section 2.03. The Closing Date shall be June 30, 2003 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; 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 January 15 and July 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 January 15 and July 15 commencing July 15, 2010, and ending January 15, 2040. Each installment to and including the installment payable on January 15, 2020, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by the Association of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 2 to this Agreement.

(b) Prior to each such exchange of views, the Borrower 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.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program.

Section 3.02. Upon the Association's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than four months after the date of the Association's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Effective Date; Termination

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

(a) The Borrower shall have:

(i) maintained a sound macroeconomic framework as determined on the basis of indicators agreed between the Borrower and the Association;

(ii) adopted a time-bound action plan, satisfactory to the Association, to mitigate external commodity risk and terms of trade shocks;

(iii) adopted a plan, satisfactory to the Association, to establish a payment system network to provide payment services to the soum level, which plan may include the use of certain branches and sub-branches of the Agricultural Bank or other entities qualified to provide this service;

(iv) furnish to the Association evidence satisfactory to the Association that all the interest on its Bank Restructuring Bonds as of the date of this Agreement have been paid;

(v) issued a regulation, satisfactory to the Association, providing for the prompt and timely servicing of all its Bank Restructuring Bonds, including linkage of their interest rate to those of the Central Bank Bills Rate (CBBR);

(vi) issued instructions to Savings Bank, satisfactory to the Association, to adopt and implement an asset-liability management policy, including prudent management of liquidity and funding

needs and payment of interest for deposits at competitive market rates, satisfactory to the Association; and

(vii) adopted an action plan, satisfactory to the Association, to develop a comprehensive program to strengthen the financial sector, including banking and supervision skills, accounting and auditing standards, and enforcement of financial contracts.

(b) The Bank of Mongolia shall have issued a regulation, satisfactory to the Association, providing for asset classification criteria to include assets other than loans as well as loans.

Section 5.02. The date ninety days (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance of the Borrower is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Commercial Street 6/1
Ulaanbaatar- 11
Mongolia

Facsimile:

9761320247

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

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

MONGOLIA

By /s/ J. Choinhor

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Julian Schweitzer

Authorized Representative

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Credit shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another credit or a loan;
3. expenditures for goods included in the following groups or subgroups 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 Borrower:

Group	Subgroup	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, 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)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;
6. expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
7. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.

SCHEDULE 2

Section I: Actions Referred to in Section 2.02 (d) of this Agreement

1. The Borrower shall have:

- (a) implemented the action plan to mitigate external commodity risk and terms of trade shocks, in a manner and substance satisfactory to the Association;
- (b) implemented the Agricultural Bank restructuring plan, in a manner and substance satisfactory to the Association;
- (c) replaced all outstanding Bank Restructuring Bonds with marketable and tradable securities that provide adequate yield, liquidity and negotiability;
- (d) adopted a time-bound action plan, satisfactory to the Association, to privatize the Savings Bank; and
- (e) implemented the comprehensive program referred to in Section 5.01 (a) (vii) of this Agreement, in a manner and substance satisfactory to the Association.

2. The Banking Law has been amended to provide for:

- (a) mandatory actions ("prompt corrective action") to be imposed automatically by Bank of Mongolia whenever the Capital Adequacy Ratio (CAR) of any bank falls below 75% and 50% of the minimum CAR required level as determined by Bank of Mongolia, including the development and implementation of a capital restoration plan, restrictions on asset growth and on new activities, and implementation of a management improvement plan;
- (b) an effective failure resolution mechanism, including mandatory placement of a bank under receivership by Bank of Mongolia, whenever the Capital Adequacy Ratio (CAR) of any bank falls below 25 % of the minimum CAR required level as determined by Bank of Mongolia, or when the bank suspends payments to liability holders;
- (c) prompt and effective intervention of the Bank of Mongolia whenever any one of the objective factors expressly stated in the Banking Law, as amended, occur, including legal evidence of fraud by the owners and management of the bank, legal evidence of incompetent management, and lack of compliance with instructions issued by the Bank of Mongolia pursuant to law; and
- (d) the process for liquidation of a bank's residual assets after failure of the resolution mechanism has taken place.

3. The Bank of Mongolia shall have implemented an action plan, satisfactory to the

Association, to strengthen its credit information bureau and facilitate sharing of information on loan defaulters among the commercial banks and the Bank of Mongolia.

4. The Mongolian Asset Recovery Agency (MARA) has been legally empowered to sell recovered assets at discounts, including through auctions, and to operate on a commercial basis.

Section II: Actions Referred to in Section 2.02 (e) of this Agreement

A private sector strategic investor with recognized international banking experience has acquired a controlling share-holding in the Trade and Development Bank.

