

CONFORMED COPY

CREDIT NUMBER 2551 MOG

(Economic Transition Support Project)

between

MONGOLIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 4, 1993

CREDIT NUMBER 2551 MOG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated November 4, 1993, 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, has requested the Association to assist in the financing of the Project; and

WHEREAS: (B) 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.

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, with the last sentence of Section 3.02 deleted (the "General Conditions") constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "ECC" means the Erdenet Copper Concern (Mongolian and Russian Mining Joint Venture), a legal entity established and operating under the laws and regulations of the Borrower pursuant to its Charter dated June 5, 1991, or any successor thereto;

(b) "Implementing Agencies" means the Borrower's departments and agencies, and other legal entities, entrusted by the Borrower with the implementation of the Project or any part thereof, namely, MOF, MTI, MFE, MGNR and ECC (as said terms are herein defined);

(c) "MFE" means the Borrower's Ministry of Fuel and Energy or any successor thereto;

(d) "MGNR" means the Borrower's Ministry of Geology and Natural Resources or any successor thereto;

(e) "MOF" means the Borrower's Ministry of Finance or any successor thereto;

(f) "MR" means the Mongolian and Russian Joint-Stock Railways, a legal entity established and operating under the laws and regulations of the Borrower pursuant to its Charter dated June 5, 1949, or any successor thereto;

(g) "MTI" means the Borrower's Ministry of Trade and Industry or any successor thereto;

(h) "PIC" means the Petroleum Import Concern, a legal entity established and operating under the laws and regulations of the Borrower pursuant to its Charter dated February 22, 1992, or any successor thereto; and

(i) "Project Beneficiaries" means the departments and agencies of the Borrower, and other legal entities selected for participation in the Project by the Borrower, namely, ECC, MFE, MR, and PIC.

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 fourteen million two hundred thousand Special Drawing Rights (SDR 14,200,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be December 31, 1995, 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 or 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 payment 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 February 1 and August 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each February 1 and August 1 commencing February 1, 2004 and ending August 1, 2033. Each installment to and including the installment payable on August 1, 2013 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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 carry out the Project, through the Implementing Agencies, with due diligence and efficiency and in conformity with appropriate engineering, administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(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 Parts A, B, C.1, and C.2 of the Project through MOF, MTI, and MFE, and shall cause ECC to carry out Parts C.3, C.4, and C.5 of the Project, all in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for 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.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain, and shall cause each of the Implementing Agencies to maintain, separate records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of their respective parts of the Project.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, 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, 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
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause ECC, MR, and PIC:

(a) To take out and maintain with responsible insurers, or to make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice;

(b) To carry on its operations and conduct its affairs in accordance with sound administrative and financial practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(c) At all times to operate and to maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and administrative practices.

ARTICLE VI

Remedies of the Association

Section 6.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that the Borrower, or any other authority having jurisdiction, shall have taken any action for the disestablishment or dissolution of any of the Project Beneficiaries or for the suspension of any of their operations, so as to affect materially and adversely the carrying out of the Project or any part thereof.

Section 6.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that any event specified in Section 6.01 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 Borrower.

ARTICLE VII

Termination

Section 7.01. 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.

Section 7.02. The obligations of the Borrower under Sections 3.01, 4.01, and 5.01 of this Agreement shall cease and determine on the date on which this Agreement shall terminate or on the date twenty (20) years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. 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 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Oktyabriin 7
Ulaanbaatar
Mongolia

Telex: 719-79241

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 (RCA),
82987 (FTCC),
64145 (WUI) or
197688 (TRT)

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/ L. Davaagiv

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Shahid J. Burki

Regional Vice President
East Asia and Pacific

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Equipment, spare parts, equipment servicing, vehicles, and materials	11,500,000	100% of foreign expenditures
(2) Consultants' services	1,350,000	100%
(3) Unallocated	1,350,000	
TOTAL	14,200,000	

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 "materials" means rail track accessories, high-speed lubricants, and such other items as may be agreed upon by the Association.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed SDR 1,400,000 may be made in respect of Categories (1) and (2) on account of payments made for expenditures before that date but after July 1, 1993.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in the operation, maintenance and development of its mining and transport sectors through the financing of imports and institutional strengthening.

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: Development of Mining Sector

1. Provision of equipment, vehicles, and spare parts to MFE for the Baga Nuur and Sharyn Gol coal mines.
2. Provision of equipment, vehicles, and spare parts to ECC for the Erdenet copper mine.

Part B: Development of Transport Sector

1. Provision of materials and spare parts to, and maintenance and servicing of locomotives of, MR for the efficient operation of the railway system.
2. Provision of: (a) gasoline and diesel dispensing pumps to PIC to reduce leakages and waste of petroleum products and mitigate environmental hazards in the domestic distribution system; and (b) lubricants to PIC.

Part C: Institutional Strengthening

1. Carrying out of a coal pricing study aimed at identifying and recommending efficient approaches to coal pricing.
2. Provision of operational assistance needed to enhance coal sectoral planning and mine management and operating practices.
3. Metallurgical testing of ECC's copper concentrate to improve copper content grades.
4. Upgrading of ECC's cost and financial accounting, and management information, systems.
5. Carrying out an environmental review of ECC's tailings pond particularly regarding toxic dusts and dam stability.

* * * * *

The Project is expected to be completed by June 30, 1995.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the "Guidelines").

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two (2) pre-disclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured within the territory of the Borrower may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Vehicles under Part A.1 of the Project, estimated to cost up to an aggregate amount not exceeding the equivalent of five hundred thousand dollars (\$500,000), may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55, 2.56 thereof).

2. Contracts for spare parts and equipment servicing shall be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply.

2. The figure of fifteen percent (15%) is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ and cause ECC to employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of

Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the "Consultant Guidelines"). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

SCHEDULE 4

Implementation Program

1. The Borrower shall implement the Project or cause the Project to be implemented, under the general supervision and guidance of MOF, as follows:

- (a) Parts A and B of the Project shall be carried out by MTI.
- (b) Parts C.1 and C.2 of the Project shall be carried out by MFE.
- (c) Parts C.3, C.4, and C.5 shall be carried out by ECC, in consultation with MGNR, under arrangements satisfactory to the Association.

2. The Borrower shall make arrangements, satisfactory to the Association, for the payment by the Project Beneficiaries of the cost of goods and technical assistance provided to them under the Project. Such payments shall be made in local currency in amounts equivalent to the foreign exchange cost of said goods and technical assistance calculated on the basis of Cost-Insurance-Freight (CIF) value and contract value respectively at the free market inter-bank exchange rate.

3. The Borrower shall:

- (a) Undertake and, by June 30, 1994, complete a study on coal pricing in accordance with terms of reference satisfactory to the Association;
- (b) discuss the results and recommendations of the said study with the Association;
- (c) undertake appropriate steps to implement the recommendations of the said study taking into account comments, if any, by the Association; and
- (d) commencing on March 31, 1994 and until such time as the obligations under the preceding sub-clauses (a) through (c) have been performed, make adjustments in the price of coal, on a quarterly basis, to keep pace with domestic inflation measured by consumer price index (CPI) estimated by the Borrower's State Statistical Office.

4. The Borrower shall, commencing on March 31, 1994, adjust, on a quarterly basis, the domestic prices of petroleum fuels and lubricants taking into account movements in the exchange rate and international prices in accordance with a formula agreed with the Association.

5. The Borrower shall carry out its economic reforms in accordance with its medium term economic strategy as agreed with the Association.



