

Public Disclosure Authorized

CONFORMED COPY

**GRANT NUMBER H313-MOG
CREDIT NUMBER 4330-MOG**

Financing Agreement

(Sustainable Livelihoods Project II)

between

MONGOLIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 19, 2007

**GRANT NUMBER H313-MOG
CREDIT NUMBER 4330-MOG**

FINANCING AGREEMENT

AGREEMENT dated December 19, 2007, entered into between MONGOLIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

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

ARTICLE II – FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant and a credit (collectively, “Financing”) in the following amounts to assist in financing the project described in Schedule 1 to this Agreement (“Project”):
 - (a) an amount equivalent to eight million six hundred fifty six thousand Special Drawing Rights (SDR 8,656,000) (“Grant”); and
 - (b) an amount equivalent to twelve million nine hundred seventy eight thousand Special Drawing Rights (SDR 12,978,000) (“Credit”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are April 15 and October 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

2.07. The Payment Currency is Dollar.

ARTICLE III – PROJECT

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

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

ARTICLE IV – REMEDIES OF THE ASSOCIATION

4.01. The Additional Events of Suspension consist of the following:

- (a) That the Recipient shall have taken, or allowed to be taken, any action to dissolve, disenfranchise, or suspend the operations of, the Microfinance Development Fund.
- (b)
 - (i) Subject to subparagraph (ii) of this paragraph, the right of the Recipient to withdraw the proceeds of the Co-financing made to the Recipient for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Memorandum of Understanding and/or the EC Trust Fund Grant Agreement;
 - (ii) Subparagraph (i) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Association that: (A) such suspension, cancellation, or termination is not caused by the failure of the Recipient to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

4.02. The Additional Events of Acceleration consist of the following:

- (a) that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

- (b) that the event specified in paragraph (b)(i) of Section 4.01 of this Agreement shall occur, subject to the provision of paragraph (b)(ii) of that Section.

ARTICLE V – EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
 - (a) the Recipient, through its Ministry of Finance, has appointed the following core staff to the SLPO: a Project Manager, a coordinator for each of Parts A, B and C of the Project, a procurement officer, a disbursement officer and an accountant, in accordance with the provisions of paragraph 1(b), Section I, of Schedule 2 to this Agreement;
 - (b) the Recipient has upgraded the SLPO financial management and reporting system in a manner satisfactory to the Association, capable of producing financial reports in a format acceptable to the Association;
 - (c) the Recipient has adopted a Project Implementation Manual acceptable to the Association in accordance with the provisions of paragraph B.3 of Section I of Schedule 2 to this Agreement;
 - (d) the staff of the SLPO and of each SLPU have completed a training course, satisfactory to the Association, on financial management, disbursement and procurement, including the provisions of the Project Implementation Manual; and
 - (e) the Recipient has established the Steering Committee pursuant to paragraph 1(a) of Section I of Schedule 2 to this Agreement.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.03. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE VI – REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient’s Representative is its Minister of Finance.

6.02. The Recipient's Address is:

Ministry of Finance
Government Building 2
United Nations Street – 5 /1
Ulaanbaatar - 210646
Mongolia

Facsimile:

976- 11- 320247

6.03. The Association's Address is:

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

Cable:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI)

1-202-477-6391

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

MONGOLIA

By /s/ Ch. Ulaan
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Arshad Sayed
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Recipient in enhancing livelihood security and sustainability of communities throughout Mongolia by implementing the second phase of the Sustainable Livelihoods Program.

The Project constitutes the second phase of the Program, and consists of the following parts:

Part A. Pastoral Risk Management

Developing and carrying out an integrated strategy of risk management for pastoral livestock production in the Project Area, with emphasis on risk preparedness, consisting of:

1. Developing and strengthening local capacity to prepare and plan for actions to be taken in response to risk forecasting.
2. Supporting and institutionalizing the preparation, financing and implementation of annual pasture-land management plans and activities, including land tenure and use and feed production through the financing of PRM Sub-projects.
3. Demonstrating good practice in pastoral livelihood improvement through the facilitation of: (a) information sharing; (b) market linkages; (c) service delivery; and (d) documenting and disseminating lessons learned.
4. Supporting a nationwide development of a multi-level institutional framework for pastoral risk management.

Part B. Community Initiatives

Carrying out a program to improve access to basic infrastructure and social services for the poor in the Project Area, consisting of:

1. Developing and implementing a Community Initiatives Fund, including the financing of CIF Sub-projects.
2. Developing and implementing community empowerment and capacity building, through: (a) information dissemination and advocacy campaigns to Beneficiaries; (b) training and capacity building to communities, SLPC members and authorities at the Ulaanbaatar City, Aimag, Duureg and Soum levels.

3. Developing and implementing proposals to improve the effectiveness of social services to Beneficiaries, including the financing of CIF Innovation Sub-projects.

Part C. Microfinance Development

Carrying out a program to improve access to financial services and products for rural citizens and poor and vulnerable non-poor segments of the population, consisting of:

1. Financing MDF Sub-projects in the Project Area, through the provision of Sub-loans in Togrog to Sub-borrowers by the Microfinance Development Fund, through the intermediation of PFIs.
2. Capacity building and innovation support for financial intermediaries and micro entrepreneurs, including provision of technical assistance therefor.

Part D. Project Management

Providing technical assistance to support development of the Program, including Project implementation, staff training, information dissemination, monitoring and evaluation, financial management, and audit, of Project accounts.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Project Management.

1. The Recipient shall:

(a) establish and maintain, throughout the period of implementation of the Project, a Steering Committee with representation from, inter alia, the Bank of Mongolia, the Recipient's Ministry of Finance, Ministry of Social Welfare and Labor, Ministry of Food and Agriculture, Ministry of Health, Ministry of Education, Culture and Science, and Ministry of Nature and Environment, and from civil society organizations, to provide direction and oversight in the implementation of the Project;

(b) maintain, throughout the period of implementation of the Project, the Sustainable Livelihoods Program Office (SLPO), within its Ministry of Finance, responsible for the management and coordination of Project activities, said Office to be provided with sufficient resources and staffed with competent personnel in adequate numbers, including a Project Manager, a coordinator for Project activities under each of Parts A, B and C of the Project, a procurement officer, a disbursement officer and an accountant, all with qualifications, experience and terms of reference satisfactory to the Association;

(c) for each of Parts A and B of the Project, establish by December 1, 2007, and, thereafter, maintain throughout the period of implementation of the Project, the Technical Working Groups with membership acceptable to the Association, to provide technical guidance and oversight in the implementation of such Parts of the Project, and to ensure the consistency of activities under such Parts of the Project with national sectoral policies;

(d) maintain, throughout the period of implementation of the Project, the Sustainable Livelihoods Program Units (SLPUs) at Ulaanbaatar and Duureg levels and at Aimag and Soum levels, responsible for the management and coordination of Project activities at Ulaanbaatar and Duureg levels and at Aimag and Soum levels, respectively, said SLPUs to be provided with sufficient resources and staffed with competent personnel in adequate numbers, including coordinators and accountants, all with qualifications, experience and terms of reference satisfactory to the Association; and

(e) maintain, throughout the period of implementation of the Project, for purposes of coordination and implementation of the activities under Parts A and B of the Project, the Sustainable Livelihoods Project Councils and the Soum Governor Office.

2. For purposes of paragraph B.2, Section II of Schedule 2 to this Agreement, the Recipient shall, by no later than December 1, 2007, select an independent auditor acceptable to the Association to carry out annual audits of all project accounts and financial statements under terms of reference acceptable to the Association.

B. Project Implementation.

3. (a) The Recipient shall, through its Ministry of Finance, adopt and thereafter apply in the implementation of the Project, a Project Implementation Manual satisfactory to the Association, which sets forth, inter alia:

- (i) the institutional arrangements for the implementation of the Project;
- (ii) a Financial Management Manual, satisfactory to the Association, setting forth policies and procedures for internal control, reporting, including financial management reports to be furnished on a quarterly basis, accounting and auditing;
- (iii) a PRM Implementation Manual and the CIF Implementation Manual, satisfactory to the Association, setting forth, inter alia, guidelines and procedures for the carrying out of Parts A and B of the Project;
- (iv) a Microfinance Operational Manual, satisfactory to the Association, setting forth, inter alia, the institutional structure and governance of the MDF, including financial management, audit requirements, and supervision and monitoring procedures; eligibility criteria for Participating Financial Intermediaries, including compliance with prudential regulations, solvency, liquidity and profitability requirements, acceptable to the Association;
- (v) Sub-project eligibility criteria, including those set forth in the Attachment to this Schedule 2, and procedures for the appraisal and approval of Sub-projects to be financed out of the proceeds of the Financing;
- (vi) guidelines for environmental and social screening of the various activities under Parts A, B and C of the Project;
- (vii) the Environmental Management Plan and the Indigenous Peoples Plan, satisfactory to the Association;

- (viii) procurement guidelines consistent with the provisions of Section III of Schedule 2 to this Agreement; and
- (ix) policies and procedures for monitoring and evaluation of Project activities and their impacts consistent with the provisions of Section II of Schedule 2 to this Agreement.

(b) The Recipient shall not amend, waive, suspend or abrogate the Project Implementation Manual or any provision therein without the prior concurrence of the Association.

4. The Recipient shall implement, and shall cause to be implemented, the Indigenous Peoples Plan in a manner satisfactory to the Association and designed to provide full consultation with, and informed participation of, indigenous peoples in the Project, and to ensure that Project activities adequately address the needs, cultural practices and preferences of such groups. The Recipient shall not amend, waive, suspend or abrogate the Indigenous Peoples Plan or any provision therein without the prior concurrence of the Association.

5. The Recipient shall carry out, and shall cause to be carried out, the Environmental Management Plan in a manner satisfactory to the Association and designed to ensure that the Project is implemented in accordance with sound environmental practices and standards. The Recipient shall not amend, waive, suspend or abrogate the Environmental Management Plan or any provision therein without the prior concurrence of the Association.

6. The Recipient shall by December 1, 2007 develop and thereafter implement a strategy, satisfactory to the Association, to enhance communications and public awareness regarding the objectives of and activities under the Project, including a time-bound action plan therefor.

7. In respect of Part C of the Project, the Recipient shall:

(a) maintain the Microfinance Development Board with representation acceptable to the Association, including representation from Bank of Mongolia, the Recipient's Ministry of Finance, Ministry of Social Welfare and Labor, Financial Regulatory Commission, Director of the SLPO, and representatives of academia, NGOs, banking and financial sector, to provide oversight of and strategic policy direction for the operation of the MDF; and

(b) maintain throughout the period of implementation of the Project the Microfinance Management Office within Bank of Mongolia, with terms of reference satisfactory to the Association, managed and staffed with qualified personnel in sufficient numbers, and provided with adequate resources, to manage the operation of the MDF in accordance with the provisions of the Microfinance Operational Manual.

8. (a) The Recipient shall operate, and cause to be operated, the MDF in accordance with the provisions of the Microfinance Operational Manual, and sound management, financial, and banking practices, and accounting and auditing standards acceptable to the Association.

(b) Amounts recovered by the MDF from PFIs under the Subsidiary Loans shall be used to fund additional Subsidiary Loans, capacity building activities, and to cover the operating costs of the MDF, in accordance with the provisions of the Microfinance Operational Manual.

9. The Recipient shall through the MDF enter into agreements satisfactory to the Association with each PFI for purposes of on-lending part of the proceeds of the Financing allocated from time to time to Category (5) to Sub-borrowers, under terms and conditions satisfactory to the Association, which shall include those set forth in the Attachment to this Schedule 2 and the following:

(a) the Subsidiary Loan shall be denominated in either Dollars and/or Togrog;

(b) the principal amount of the Subsidiary Loan, interest thereon and other charges shall be paid by the PFI to the MDF in the currency of loan denomination;

(c) the PFI shall undertake to use the proceeds of the Subsidiary Loan for the sole purpose of providing Sub-loans to finance MDF Sub-projects which meet eligibility criteria acceptable to the Association, and under terms and conditions acceptable to the Association, as set forth in the Attachment to this Schedule; and

(d) the annual interest rate applied on the principal amount withdrawn and outstanding of a Subsidiary Loan shall be established to maintain a positive on-lending rate in real terms; for these purposes, by no later than March 31 and September 30 of each year, or such other dates as the Association shall otherwise agree, commencing on March 31, 2008, the Recipient shall review and determine the rate or rates of interest applicable to the Subsidiary Loans with the prior concurrence of the Association.

10. The Recipient shall, through the MDF, exercise its rights under each Subsidiary Loan Agreement in such manner as to protect the interests of the Recipient, and the Association, and to accomplish the purposes of the Financing and, except as the Association shall otherwise agree, not assign, amend, abrogate or waive any Subsidiary Loan Agreement to which it is a party or any provision thereof.

Section II. Project Monitoring, Reporting, Evaluation**A. Project Reports.**

1. The Recipient shall monitor and evaluate the progress of the Project, including the quality of the microfinance portfolio under Parts C of the Project in accordance with CGAP Guidelines, and prepare on April 1 and October 1 of each year, commencing on October 1, 2008 and thereafter, semiannual Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth in the Annex to this Schedule. Each semiannual Project Report shall cover the period of the preceding six (6) months, and shall be furnished to the Association not later than ninety (90) days after the end of the period covered by such report.

2. For purposes of Section 4.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than December 31, 2012.

B. Financial Management, Financial Reports and Audits.

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) Fiscal Year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement**A. General.**

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular

contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods.

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods.** The following table specifies the methods of procurement, other than International Competitive Bidding which may be used for goods. The Procurement Plan shall specify the circumstances under which such methods may be used:

<u>Procurement Method</u>	
(a)	National Competitive Bidding procedures acceptable to the Association.
(b)	Shopping procedures acceptable to the Association.
(c)	Community Participation in Procurement procedures acceptable to the Association.

C. Particular Methods of Procurement of Consultants’ Services.

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used:

<u>Procurement Method</u>	
(a)	Quality Based Selection.
(b)	Selection Based on Consultants’ Qualifications.
(c)	Single Source Selection.
(d)	Least-Cost Selection.
(e)	Individual Consultants.

D. Review by the Association of Procurement Decisions.

1. Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods procured on the basis of International Competitive Bidding, and the

first five (5) contracts procured on the basis of National Competitive Bidding; (b) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; (c) each contract for consultants' services provided by an individual estimated to cost the equivalent of \$50,000 or more; and (d) each contract for consultants' services procured under either single source selection or less-cost selection, regardless of their respective values. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General.

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

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

<u>Category</u>	<u>Amount of the Credit (expressed in SDR)</u>	<u>Amount of the Grant (expressed in SDR)</u>	<u>Percentage of Expenditures to be Financed</u>
(1) Goods	1,122,000		100%
(2) Goods, works and services for PRM Sub-projects under Part A of the Project	4,480,000	1,508,000	100%
(3) Goods, works and services for CIF Sub-projects under Part B.1 of the Project	2,130,000	974,000	100%
(4) Goods works and services for CIF Innovation Sub-projects under Part B.3 of the		66,000	100%

<u>Category</u>	<u>Amount of the Credit (expressed in SDR)</u>	<u>Amount of the Grant (expressed in SDR)</u>	<u>Percentage of Expenditures to be Financed</u>
Project			
(5) Sub-loans made under Part C.1 of the Project	5,246,000		100% of Sub-loan amount disbursed
(6) Consultants' services:			100%
(a) under Parts A, B and C of the Project		707,000	
(b) under Part D of the Project		2,536,000	
(7) Training, including Capacity Building		1,404,000	100%
(8) Incremental Operating Costs		1,461,000	100%
TOTAL AMOUNT	<u>12,978,000</u>	<u>8,656,000</u>	

3. For purposes of this Schedule the term "Incremental Operating Costs" means expenditures for office consumables and operation of office equipment, vehicle operation and maintenance, transportation costs and field allowances, and costs for information dissemination, incurred by the SLPO and SLPUs in connection with the management, coordination and implementation of the Project, which would not have been incurred absent the Project, but excluding staff salaries.

B. Withdrawal Conditions; Withdrawal Period.

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made in respect of payments made for:

- (a) any expenditures incurred prior to the date of this Agreement;
- (b) expenditures under Category (3) until:

- (i) the Memorandum of Understanding and the EC Trust Fund Grant Agreement shall have been executed by each of the parties thereto and all conditions precedent to their respective effectiveness or to the right of the Recipient to make withdrawals under each of them have been fulfilled; and the Association has been furnished with an executed copy of such agreements and a legal opinion of counsel acceptable to the Association indicating that: (A) the Memorandum of Understanding has been duly authorized or ratified by each of the parties thereto and is legally binding on said parties in accordance with its terms; and (B) the EC Trust Fund Grant Agreement has been duly authorized or ratified by the Recipient and is legally binding in accordance with its terms; and
- (ii) the aggregated amount of the Co-financing shall have been fully committed by the Recipient to finance CIF Sub-projects.

(c) expenditures under Category (5) unless the Association shall have received satisfactory evidence that the Recipient has established a management information system adequate to monitor microfinance activities, in accordance with the provisions of paragraph B.1, Section II of Schedule 2 to this Agreement; and

(d) any Sub-loan under Category (5), in respect of any PFI, unless the Association shall have received satisfactory evidence that the Recipient, through the Microfinance Development Fund, and such PFI has entered into a Subsidiary Loan Agreement, satisfactory to the Association, in accordance with the provisions of paragraph 9 of Section I of Schedule 2 to this Agreement, and an opinion of counsel acceptable to the Association shall have been furnished to the Association showing that said Subsidiary Loan Agreement is valid and enforceable on the parties thereto pursuant to the Recipient's domestic legislation.

2. The Closing Date is June 30, 2012.

ATTACHMENT to SCHEDULE 2**Sub-project Selection Criteria and
Terms and Conditions for the financing of PRM Sub-projects, CIF Sub-projects,
CIF Innovation Sub-projects, and MDF Sub-loans**

1. The Recipient shall ensure that all PRM Sub-projects, CIF Sub-projects, CIF Innovation Sub-projects and MDF Sub-projects under Parts A.2, B.1, B.3 and C.1 of the Project, to be financed in part out of the proceeds of the Financing, are technically and financially viable, environmentally sustainable and economically justifiable.

2. (a) No Sub-loans shall be made unless a Sub-loan Agreement, satisfactory to the Association, shall have been entered into between a PFI and a Sub-borrower for purposes of a Sub-loan.

(b) The Recipient shall take all such actions as shall be necessary to ensure compliance with the terms and conditions for the financing of PRM Sub-projects, CIF Sub-projects, CIF Innovation Sub-projects and MDF Sub-projects set forth in the PIM, satisfactory to the Association, including:

- (i) the obligation of the Beneficiary, legal entity or Sub-borrower, as the case may be, to carry out the respective PRM Sub-project, CIF Sub-project, CIF Innovation Sub-project, and MDF Sub-project with due diligence and efficiency, and in conformity with appropriate financial, engineering, pastoral management practices and sound environmental standards;
- (ii) the obligation that the proceeds of the Financing made available to finance PRM Sub-projects, CIF Sub-projects, CIF Innovation Sub-projects, and MDF Sub-projects shall be used exclusively to finance goods, works and services required for the respective PRM Sub-project, CIF Sub-project, CIF Innovation Sub-project, and MDF Sub-project; and said goods, works or services shall be used exclusively for the purposes of the respective PRM Sub-project, CIF Sub-project, CIF Innovation Sub-project, and MDF Sub-project;
- (iii) all goods, works or services required for PRM Sub-projects, CIF Sub-projects, CIF Innovation Sub-projects and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Section III of Schedule 2 to this Agreement;
- (iv) all goods, works or services required for MDF Sub-projects and to be financed out of the proceeds of a Sub-loan shall be

procured at a reasonable price under established commercial practices acceptable to the Association; and

- (v) the Beneficiaries, legal entities and Sub-borrowers, as the case may be, shall enable the respective SLPO, PFI and the Association, and, as the case may be, to inspect the goods and sites of its PRM Sub-project, CIF Sub-project, CIF Innovation Sub-project, and MDF Sub-project, respectively, the operation thereof, and any relevant records or documents.

3. In respect of Sub-loans extended by PFIs to Sub-borrowers, the interest rate shall be established by the PFIs exclusively on the basis of their evaluation of market conditions, credit risks and operating costs.

4. In respect of PRM Sub-projects and CIF Sub-projects the amount of the respective grants shall not exceed ninety percent (90%) of the estimated total cost of the respective PRM Sub-project and CIF Sub-project, with a Beneficiary contribution of no less than ten percent (10%) of the total cost of the relevant PRM Sub-project and CIF Sub-project. In respect of a CIF Innovation Sub-project, the amount of the grant may finance one hundred percent (100%) of the estimated total cost of the respective CIF Innovation Sub-project.

ANNEX

Performance Indicators

The performance indicators referred to in paragraph A.1(a), Section II of Schedule 2 to this Agreement consist of the following:

- (i) 80% of Beneficiaries taking actions to mitigate pastoral risk.
- (ii) 60% of Beneficiaries satisfied with the mechanisms and outcomes of CIF Sub-projects.
- (iii) 25% increase in number of Sub-borrowers at *soum* level and below measured from the baseline assessment conducted at start of Project implementation.
- (iv) 25% increase in annual income of Sub-borrowers at *soum* level and below measured from the baseline assessment conducted at start of Project implementation.

SCHEDULE 3**Repayment Schedule**

<u>Date Payment Due</u>	Principal Amount of the Credit repayable (<u>expressed as a percentage</u>)*
On each April 15 and October 15:	
commencing on October 15, 2017 to and including April 15, 2027	1%
commencing October 15, 2027 to and including April 15, 2047	2%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

APPENDIX**Section I. Definitions**

- (a) “Aimag” means a province of the Recipient.
- (b) “Bagh” means a rural sub-district of the Recipient.
- (c) “Bank of Mongolia” means the central bank of the Recipient, and any successor thereto.
- (d) “Beneficiaries” mean communities in the Project Area that meet the eligibility criteria set forth in the Project Implementation Manual.
- (e) “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
- (f) “CIF Innovation Sub-project” means any proposals to improve the effectiveness of social services to Beneficiaries under Part B.3 of the Project to be financed out of the proceeds of the Financing on a grant basis, which meet the eligibility criteria set forth in the Project Implementation Manual, and to be financed out of the proceeds of the Financing on a grant basis and “CIF Innovation Sub-projects” means collectively all CIF Innovation Sub-projects.
- (g) “CIF Sub-project” means any of the community-identified basic social infrastructure and social services activities under Part B.1 of the Project to be financed out of the proceeds of the Financing on a grant basis which meet the eligibility criteria set forth in the Project Implementation Manual, and “CIF Sub-projects” means collectively all CIF Sub-projects.
- (h) “CGAP” means the Consultative Group to Assist the Poorest, a consortium of 29 bilateral and multilateral donor agencies established in 1995 for the purpose of supporting the development and strengthening of micro-finance institutions to deliver flexible and high-quality financial services to the very poor on a sustainable basis.
- (i) “Co-financier” means the European Community represented by the European Commission, referred to in paragraph 10 of the Appendix to the General Conditions.
- (j) “Co-financing” means the amount to be provided by the Co-financier to assist in financing the cost of goods and works for CIF Sub-projects under Part B.1 of the Project.

(k) “Co-financing Agreements” means collectively the Memorandum of Understanding and the EC Trust Fund Grant Agreement, as hereinafter defined, and the term “Co-financing Agreement” means any one of the Co-financing Agreements.

(l) “Community Initiatives Fund” and the acronym “CIF” mean the fund established under Part B.1 of the Project, to provide grants to community groups (Beneficiaries) for the implementation of eligible basic infrastructure and social services activities (CIF Sub-projects) identified by such community groups at the Soum, Bagh and Duureg level in the Project Area.

(m) “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.

(n) “Duureg” means an urban district of the Recipient.

(o) “EC Trust Fund Grant Agreement” means the agreement to be entered into between the Recipient and the Association acting as Administrator of the Co-financing.

(p) “Environmental Management Plan” and the acronym “EMP” mean the Environmental Management Plan, dated December 2006, adopted by the Recipient on December 29, 2006 and acceptable to the Association, which sets out environmental protection measures as well as administrative and monitoring arrangements to ensure the implementation of said measures, referred to in paragraph 5, Section I of Schedule 2 to this Agreement, as said Plan may be amended from time to time with the prior agreement of the Association.

(q) “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.

(r) “Indigenous Peoples Plan” and the acronym “IPP” mean the Indigenous Peoples Plan, dated March 2006, adopted by the Recipient on March 2, 2006 and acceptable to the Association, which provides guidance and direction for the participation of ethnic minorities in the Project, referred to in paragraph 4, Section I of Schedule 2 to this Agreement, as said Framework may be amended from time to time with the prior agreement of the Association.

(s) “Memorandum of Understanding” means the agreement to be entered into between the Recipient and the European Community represented by the European Commission for purposes of the Co-financing.

(t) “Microentrepreneurs” means an individual engaged in income generating activities for the purposes of livelihood improvement.

(u) “Microfinance Development Board” and the acronym “MDB” mean the board established by the Recipient on February 5, 2003 and to be maintained in accordance with the provisions of paragraph 7(a) of Section I of Schedule 2 to this Agreement, to provide oversight of and strategic direction for the operation of the MDF.

(v) “Microfinance Development Fund” and the acronym “MDF” mean the wholesale facility established by the Recipient within the Bank of Mongolia on October 23, 2002 and to be maintained in accordance with the provisions of paragraph 8(a) of Section I of Schedule 2 to this Agreement, to provide financing to PFIs for further on-lending to individuals, groups of individuals, households, microentrepreneurs or other juridical persons for the implementation of eligible Sub-projects.

(w) “Microfinance Management Office” and the acronym “MMO” mean the office established by the Recipient on October 23, 2002 and to be maintained in accordance with the provisions of paragraph 7(b) of Section I of Schedule 2 to this Agreement to manage the operation of the MDF.

(x) “Microfinance Operational Manual” means the manual, satisfactory to the Association, to be applied by the Recipient in the carrying out of Part C.1 of the Project pursuant to paragraph 3(a)(iv) of Section I of Schedule 2 to this Agreement as such Manual may be amended from time to time with the prior agreement of the Association.

(y) “MDF Sub-project” means a small-scale income-generating activity under Part C.1 of the Project, to be financed in part by a Sub-loan and carried out by a Sub-borrower.

(z) “Ministry of Finance” means the Recipient’s Ministry of Finance, and any successor thereto.

(aa) “Ministry of Food and Agriculture” means the Recipient’s Ministry of Food and Agriculture, and any successor thereto.

(bb) “Ministry of Social Welfare and Labour” means the Recipient’s Ministry of Social Welfare and Labour, and any successor thereto.

(cc) “Pastoral Risk Management Fund” and the acronym “PRM Fund” mean the fund established under Part A.2 of the Project, to provide grants to a Beneficiary to finance in part eligible plans and activities (PRM Sub-projects), at the Soum, Bagh and Duureg level in the Project Area.

(dd) “PFI” means those Participating Financial Intermediaries which meet the eligibility criteria set forth in the Microfinance Operational Manual to receive Subsidiary

Loans from the MDF for the purposes of further providing Sub-loans to Sub-borrowers for the implementation of eligible MDF Sub-projects under Part C.1 of the Project.

(ee) “PRM Sub-project” means any of the community-identified plans and activities under Part A.2 of the Project to be financed out of the proceeds of the Financing on a grant basis which meet the eligibility criteria set forth in the Project Implementation Manual, and “PRM Sub-projects” means collectively all PRM Sub-projects.

(ff) “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.

(gg) “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 22, 2007, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

(hh) “Program” means the program designed to promote secure and sustainable livelihoods for the poorer and more vulnerable population of Mongolia through the adoption of improved livelihood strategies that build and maintain human, social, financial, physical and natural capital while reducing vulnerability to shock and set forth or referred to in the letter dated March 25, 2002 from the Recipient to the Association, and declaring the Borrower’s commitment to the execution of such Program.

(ii) “Project Area” means all the Recipient’s Ulaanbaatar City, Aimags, Soms and Duuregs.

(jj) “Project Implementation Manual” and the acronym “PIM” mean the manual satisfactory to the Association to be adopted and applied by the Recipient in the implementation of the Project in accordance with the provisions of paragraph A.3(a), Section I of Schedule 2 to this Agreement, as such Manual may be amended from time to time with the prior agreement of the Association.

(kk) “SLPC” means a Sustainable Livelihoods Project Council, to be established and maintained within each Aimag, Soum and Duureg in accordance with the provisions of paragraph A.1(e), Section I of Schedule 2 to this Agreement.

(ll) “Steering Committee” means the committee to be established and maintained pursuant to paragraph A.1(a), Section I of Schedule 2 to this Agreement.

(mm) “Soum” means a rural district of the Recipient.

(nn) “Sub-borrower” means an individual, a household, a microentrepreneur or other juridical person.

(oo) “Sub-loan” means a loan made by the Recipient through a PFI out of the proceeds of a Subsidiary Loan to a Sub-borrower under a Sub-loan Agreement to finance in part an eligible MDF Sub-project in accordance with the provisions of the Project Implementation Manual, and “Sub-loans” means collectively all Sub-loans.

(pp) “Sub-loan Agreement” means the agreement entered into by a PFI and a Sub-borrower for purposes on making a Sub-loan, under terms and conditions satisfactory to the Association, and “Sub-loan Agreements” means collectively all Sub-loan Agreements.

(qq) “Subsidiary Loans” means collectively loans made by the Recipient, through the MDF, to PFIs to finance Sub-loans in accordance with the provisions of the Microfinance Operational Manual under the Project Implementation Manual; and a “Subsidiary Loan” means any of such Subsidiary Loans.

(rr) “Subsidiary Loan Agreement” means the agreement entered into by the Recipient, through the MDF, and a PFI for purposes on making a Sub-loan, under terms and conditions satisfactory to the Association, and “Subsidiary Loan Agreements” means collectively all Subsidiary Loan Agreements.

(ss) “Sub-projects” means collectively PRM Sub-projects, CIF Sub-projects, CIF Innovation Sub-projects, and MDF Sub-projects.

(tt) “Sustainable Livelihoods Program Office” and the acronym “SLPO” mean the office established by the Recipient under the Program, responsible for managing and coordinating the implementation of the Project under the guidance of the Steering Committee, in accordance with the provisions of paragraph A.1(b) of Section I of Schedule 2 to this Agreement, and any successor thereto.

(uu) “Sustainable Livelihoods Program Unit” and the acronym “SLPU” mean each office established by the Recipient under the Program at the Ulaanbaatar City, Aimag, Soum and Duureg level, responsible for managing and coordinating the implementation of the Project under the guidance of the SLPO, in accordance with the provisions of paragraph A.1(d) of Section I of Schedule 2 to this Agreement, and any successor thereto.

(vv) “Technical Working Groups” means the working groups established by the Recipient at the central level and the Aimag level, in accordance with the provisions of paragraph A.1(c), Section I of Schedule 2 to this Agreement, to provide technical guidance in connection with the implementation of Parts A and B of the Project.

(ww) “Togrog” and “MNT” mean the lawful currency of the Recipient.