January 22, 2016

Mr. Bolor Bayarbaatar
Minister of Finance
Ministry of Finance
Government Building II
United Nations Street 5/1
Ulaanbaatar 15015
Mongolia

Re: Mongolia: SAI-CDF Grant No.TF0A1838
Capacity Building for the Mongolian National Audit Office ("MNAO") Project
Letter Agreement

Excellency:

In response to the request for financial assistance made on behalf of Mongolia ("Recipient"), I am pleased to inform you that the International Development Association ("World Bank"), acting as administrator of grant funds provided by the Swiss Confederation ("Donor") under the Supreme Audit Institution Capacity Development Fund ("SAI-CDF"), proposes to extend to the Recipient a grant in an amount not to exceed three hundred eighty thousand United States Dollars (U.S.$380,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donor. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donor(s) under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned
copy, this Agreement shall become effective as of the date of the countersignature ("Effective Date").

Very truly yours,

INTERNATIONAL DEVELOPMENT ASSOCIATION
acting as administrator of the Supreme Audit Institution Capacity Development Fund

By Mara Warwick
Acting Country Director, Mongolia
East Asia and Pacific Region

AGREED:
MONGOLIA

By Authorized Representative

Name Bolor Bayarbaatar
Title Minister of Finance
Date: 04 Feb 2016

Enclosures:


(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
ANNEX

Article I
Standard Conditions; Definitions


1.02. Definitions. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement.

Article II
Project Execution

2.01. Project Objectives and Description. The objective of the Project is to strengthen the Mongolian National Audit Office (“MNAO”)’s capacity, primarily in financial audit and audit firm contracting and oversight. The Project consists of the following parts:

(a). Conducting a peer review of MNAO’s financial audit activities to provide an objective, third-party assessment of its strengths, weaknesses and priority improvement needs;

(b) Carrying out a comprehensive MNAO knowledge and learning needs assessment covering the entire organization, including its local branch office staff to identify capacity gaps;

(c) Developing a comprehensive, needs-driven and sustainable continuing professional development (CPD) strategy and detailed action plan based on the peer review and the knowledge and learning needs assessment carried out under the Project;

(d) Developing a customized training materials tailored to MNAO’s capacity building needs and delivering training to MNAO personnel in the areas identified by the aforementioned assessments, strategy and action plan; and

(e) Provision of technical assistance to establish an efficient and fully transparent and documented procurement process for contracting private audit firms and to strengthen and streamline MNAO’s private audit firm selection processes.

2.02. Project Execution Generally. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project through MNAO in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed
by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”); and (c) this Article II.

2.03. **Donor Visibility and Visit.** (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, enable the representatives of the Donor(s) to visit any part of the Recipient’s territory for purposes related to the Project.

2.04. **Project Monitoring, Reporting and Evaluation.** (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth below in paragraph (b) of this Section. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than one month after the end of the period covered by such report.

(b) The performance indicators referred to above in paragraph (a) consist of the following:

(i) Percentage of recommendations provided by the financial audit peer review that have been implemented by MNAO;

(ii) Percentage of MNAO auditors trained in the priority areas identified by the CPD strategy and action plan; and

(iii) Utilization by MNAO of a strengthened procedure for selection of private audit firms contracted to conduct audits of government entities.

(c) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six (6) months after the Closing Date.

2.05. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank as part of the Project Report not later than forty-five (45) days after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.
(d) By no later than (1) month after the Effective Date, the Recipient shall: (i) appoint, under terms of reference satisfactory to the World Bank, an adequately trained, duly qualified, and experienced professional responsible for the financial management and disbursement aspects of the Project; and (ii) furnish to the World Bank a chart of accounts for the Project developed in a manner satisfactory to the World Bank.

2.06. **Procurement**

(a) **General.** All goods, non-consulting services, and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:


(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (revised July 2014) (“Consultant Guidelines”) in the case of consultants’ services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”).

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Goods and Non-consulting Services**

(i) The following methods may be used for procurement of goods and non-consulting services for those contracts which are specified in the Procurement Plan: (A) Shopping; and (B) Direct Contracting.

(d) **Particular Methods of Procurement of Consultants’ Services**

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
(ii) The following methods, other than Quality- and Cost-based Selection, may be used for the procurement of consultants' services for those assignments which are specified in the Procurement Plan: (A) Selection based on Consultants’ Qualifications; (B) Single-source Selection of consulting firms; (C) Selection of Individual Consultants; and (D) Single-source procedures for the Selection of Individual Consultants.

(e) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.

Article III
Withdrawal of Grant Proceeds

3.01. Eligible Expenditures. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may 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 World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consultants’ services, Goods, Training and Workshops, and Incremental Operating Costs</td>
<td>380,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>380,000</td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this Section, the following terms shall have the following meaning:

(a) “Incremental Operating Costs” means reasonable expenditures directly related to the Project (which expenditures would not have been incurred absent the Project), based on an annual budget for such costs approved ex-ante in writing by the World Bank, including expenditures for consumable materials, office supplies, communications services (including postage handling, telephone and internet costs), publication services, translation services, office space rental and utilities, maintenance of office equipment and operation, and but excluding salaries, bonuses, fees and honoraria of members of the Recipient’s civil service; and
“Training and Workshop” means the costs associated with training and national workshops participation of personnel involved in implementation of the Project, based on an annual budget for such expenditures approved ex-ante in writing by the World Bank, including expenditures for the purchase and publication of materials, rental of facilities, course fees, and travel, accommodation and subsistence of trainees, directly related to the Project.

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of this Agreement.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is August 30, 2018.

**Article IV**

**Recipient’s Representative; Addresses**

4.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions its Minister of Finance.

4.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance
Government Building II
United Nations Street 5/1
Ulaanbaatar 15015
Mongolia

Facsimile: 976-11-327914

4.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: 1-202-477-6391