Financing Agreement

(Third Sustainable Livelihoods Project)

between

MONGOLIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 30, 2015
FINANCING AGREEMENT

AGREEMENT dated \( \text{June 25} \), 2015, 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 credit in an amount equivalent to sixteen million and one hundred thousand Special Drawing Rights (SDR 16,100,000) (variously, "Credit" and "Financing") to assist in financing the project described in Schedule 1 to this Agreement ("Project").

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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.

2.06. The Payment Dates are March 1 and September 1 in each year.
ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project and the Sustainable Livelihoods Program. To this end, the Recipient shall carry out the Project, through the 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 Event of Suspension consists of the following:

(a) That the Recipient has taken, or allowed to be taken, any action to dissolve, disenfranchise, or suspend the operations of, the Local Development Fund.

4.02. The Additional Event of Acceleration consists of the following, that the event specified in paragraph (a) of Section 4.01 of this Agreement shall occur.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Conditions of Effectiveness consist of the following:

(a) the SDC Co-financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled; and

(b) the Project Implementation Unit referred to in paragraph 1(b) of Section I.A of Schedule 2 to this Agreement has been established and the Project Coordinator has been appointed.

5.02. The Effectiveness Deadline is the date one hundred twenty (120) 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 II
United Nations Street 5/1
Ulaanbaatar 15015
Mongolia

Facsimile:

(976-11) 32-02-47

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 248423 (MCI) 1-202-477-6391
Washington, D.C.
AGREED at Ulaanbaatar, Mongolia, as of the day and year first above written.

MONGOLIA

By

Authorized Representative

Name: Erdenebat Jargaltulga
Title: Minister of Finance

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: Bert Hofman
Title: CD for Mongolia
SCHEDULE 1

Project Description

The objective of the Project is to improve governance and community participation for the planning and delivery of priority investments in rural areas of Mongolia.

The Project consists of the following parts:

Part 1: Capacity Building for Local Governance and Livelihoods

(a) Provision, to local authorities and communities, of training and technical assistance related to the implementation of the Local Development Fund and Soum Program, in the areas of medium term planning, community participation, budget preparation and adoption, budget execution including procurement and supervision, reporting, monitoring and evaluation and pastureland planning and management.

(b) Provision of technical assistance to the central public administration organizations in charge of economic and finance issues related to the development and implementation of the Soum Program and Local Development Fund.

Part 2: Good Governance Performance-Based Support Program

(a) As an incentive for good governance, provision of Good Governance Performance-Based Financing to Soums for the financing of activities under the Local Development Fund.

(b) Carrying out of annual performance assessments of Soums for the purposes of determining the allocation of Good Governance Performance-Based Financing.

(c) Provision of training to Good Governance Performance Assessment Teams.

Part 3: Project Management and Monitoring and Evaluation

Provision of technical assistance and training and acquisition of office and other equipment, to support implementation of the Sustainable Livelihoods Program, including support for 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. Institutional Arrangements

1. The Recipient shall establish and maintain, throughout the period of implementation of the Project:

   (a) the Steering Committee with representation from, inter alia, the Recipient's central public administration organizations in charge of economic development; finance; population development and social welfare; industry and agriculture; health; education and science; culture, sports and tourism; environment and green development; and construction and urban development; and from civil society organizations, to provide direction and oversight in the implementation of the Project;

   (b) a Project Implementation Unit responsible for the management and coordination of Project activities, including with the agency responsible for LDF implementation, said Unit to be provided with sufficient resources and staffed with qualified personnel in adequate numbers, including a Project Coordinator, a procurement officer, and a financial management officer, all with terms of reference satisfactory to the Association; and

   (c) Soum Support Teams at the Aimag level, responsible for providing training and technical assistance to local authorities and herder communities under Part 1 of the Project, such teams to be provided with sufficient resources and staffed with qualified personnel.

B. Project Implementation

1. For purposes of the Project, the Recipient shall prepare and, by not later than August 1, 2015, adopt the Project Implementation Manual in substance and form satisfactory to the Association.

2. (a) The Recipient shall carry out the Project in accordance with the Project Implementation Manual which includes, among other things:

   (i) the institutional arrangements for the implementation of the Project consistent with Part A of this Section I;

   (ii) policies and procedures for internal financial management of the Project, including reporting, accounting and auditing and for
monitoring and evaluation of Project activities and their impact, all consistent with the provisions of Section II of this Schedule 2;

(iii) procedures for carrying out procurement under the Project, consistent with the provisions of Section III of this Schedule 2;

(iv) the selection criteria and terms and conditions and procedures for the Good Governance Performance-Based Financing to be provided to Soums out of the proceeds of the Credit under Part 2 of the Project;

(v) the content and format for reporting LDF expenditures for financing from the Good Governance Performance-Based Financing; and

(vi) as attachments, the Environmental and Social Management Plan and the Indigenous Peoples Plan.

(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.

3. For purposes of Part 2 (b) of the Project, the Recipient shall, by December 1 in each year, contract independent Good Governance Performance Assessment Teams to carry out the annual performance assessment of Soums and shall ensure that all members of such teams receive adequate training before carrying out such assessments.

C. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

D. Good Governance Performance-Based Financing

Good Governance Performance-Based Financing shall be provided to Soums out of the proceeds of the Credit under Part 2 (a) of the Project in accordance with the criteria and on the terms and conditions set out in the Project Implementation Manual.

E. Safeguards

1. In the implementation of activities supported by the Local Development Fund or the Good Governance Performance-Based Financing, the Recipient shall apply, and cause to be applied, the Indigenous Peoples Plan and the Environmental and Social Management Plan in a manner satisfactory to the Association, and shall not
amend, waive, suspend or abrogate such instruments or any provision thereof without the prior written agreement of the Association.

2. Without limitation upon the foregoing, the Recipient shall ensure that, to the extent possible no person, group or community shall, on account of any activity supported by the Local Development Fund or the Good Governance Performance-Based Financing, be involuntarily displaced or lose their right, title, interest or use of any house, land (including communal pasturelands) or other natural resources. In the event that any activity would lead to such involuntary displacement or loss, the Recipient shall ensure that: (a) the activity shall be not be approved before a plan, satisfactory to the Association, has been prepared and adopted for the resettlement or other compensation of such person, group or community; and (b) the activity shall be carried out in accordance with such plan.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators acceptable to the Association as set out in the PIM. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Association not later than one (1) month after the end of the period covered by such report.

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. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than one (1) month after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. 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 Non-consulting Services.** All goods and non-consulting 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 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 Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Non-consulting Services

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

2. **Other Methods of Procurement of Goods and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts specified in the Procurement Plan: (a) Shopping; (b) Direct Contracting; (c) Community Participation procedures which have been found acceptable to the Association, as set out in the Procurement Handbook to be included in the Project Implementation Manual; and (d) National Competitive Bidding, subject to the following additional provisions:
Additional Procedures for National Competitive Bidding

(a) Applicable Procurement Procedure

Bidding shall be conducted in accordance with the Open Bidding Procedure, as defined in Chapter Two of the Public Procurement Law of Mongolia enacted on December 1, 2005 (as amended through June 16, 2011) and related provisions, subject to the following:

(b) Participation in Bidding and Preferences

(i) Government-owned enterprises in Mongolia shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not a dependent agency of the Recipient.

(ii) A bidder declared ineligible by the World Bank, based on a determination by the World Bank that the bidder has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for or in executing a World Bank-financed contract, shall be ineligible to be awarded a World Bank-financed contract during the period of time determined by the World Bank.

(iii) A firm which has been engaged by the Recipient to provide consulting services for the preparation or implementation of a project, and any of its affiliates, shall be disqualified from subsequently providing goods or works resulting from or directly related to the firm’s consulting services for such preparation or implementation. This provision does not apply to the various firms which together are performing the contractor’s obligations under a turnkey or design and build contract.

(iv) Prospective bidders shall be permitted to request bidding documents either in person or by mail upon submission of a written application. Bidding documents shall be sold to anyone who is willing to pay the required fee for the bidding documents which shall not exceed the cost of reproduction and delivery of such documents.

(v) Interested foreign bidders from eligible countries shall be allowed to participate without being required to associate or form joint ventures with local bidders. Foreign bidders shall be eligible to participate in bidding under the same conditions as
local bidders. Mongolian bidders and goods of Mongolian origin shall be given no preference over foreign bidders, either in the bidding process or in the evaluation of bids.

(vi) Prior registration shall not be a requirement for any bidder to participate in bidding.

(vii) Pre-qualification of contractors shall not be required, except in the case of large or complex works and with the prior written concurrence of the World Bank.

(c) Advertising, Time for Bid Preparation

Invitations to bid shall be advertised in at least one widely circulated national newspaper, allowing sufficient time, normally a minimum of 30 days, for the preparation and submission of bids. Bidding documents may be distributed electronically provided that the World Bank is satisfied with the adequacy of such electronic system.

(d) Standard Bidding Documents

Standard bidding documents, acceptable to the World Bank, shall be used. The bidding documents shall provide clear instructions on how bids should be submitted, how prices should be offered, and the place and time for submission and opening of bids. Bidders shall be allowed to submit bids by hand, by mail or by courier.

(e) Assessment of Bidder’s Qualification

Qualification criteria shall be clearly specified in the bidding documents, and all criteria so specified, and only criteria so specified, shall be used to determine whether a bidder is qualified. The evaluation of the bidder’s qualifications shall be conducted separately from the technical and commercial evaluation of the bid. When post qualification is applied, the assessment of bidder’s qualifications shall be carried out only after the preliminary and detailed evaluation of bids has been completed by the Recipient and, in doing so, the qualifications of the bidder who has submitted the lowest evaluated substantially responsive bid shall be assessed first. The evaluation of a bidder’s qualifications shall only take into account the bidder’s capacity and resources to perform the contract, specifically its experience and past performance on similar contracts, capabilities with respect to personnel, equipment and construction or manufacturing facilities and financial capacity. In carrying out the post-qualification assessment, the Recipient shall exercise reasonable judgment in requesting, in writing, from a bidder
only missing factual or historical supporting information related to the bidder’s qualifications and shall provide a reasonable time period (that is, a minimum of seven days) to the bidder to provide his response.

(f) Evaluation Criteria

Evaluation criteria to be used in the evaluation of bids shall be clearly specified in the bidding documents, and evaluation criteria other than price shall be quantified in monetary terms. Merit points shall not be used in bid evaluation. The evaluation of bids shall be done in strict adherence to the criteria specified in the bidding documents, and contracts shall be awarded to the qualified bidder offering the lowest evaluated and substantially responsive bid.

(g) Bid Opening and Bid Evaluation

(i) Bids shall be opened in public, immediately upon the stipulated deadline for submission of bids. Bidder’s representatives and the project’s beneficiaries from the concerned local community who choose to attend shall be allowed to attend. The name of the bidder and total amount of each bid, including discounts, shall be read aloud and recorded in the Bid Opening Record. Bids received after the deadline for bid submission shall be rejected and returned to the bidders unopened. Immediately after completion of the bid opening proceedings, a copy of the Bid Opening Record shall be posted at a prominent location, accessible to the public, outside the office of the concerned procuring entity and shall be retained at the same location until the award of contract has been notified. A copy of the Bid Opening Record shall be promptly provided to all bidders who submitted bids. With respect to all contracts which are subject to the World Bank’s prior review, the Recipient shall provide the World Bank a copy of the Bid Opening Record.

(ii) All bids shall not be rejected or new bids invited without the World Bank’s prior written concurrence.

(iii) No bid shall be rejected merely on the basis of a comparison with the owner’s estimated cost or budget ceiling without the World Bank’s prior written concurrence.

(iv) A bid containing material deviations from or reservations to the terms, conditions or specifications of the bidding documents shall be rejected as not substantially responsive. A bidder shall not be permitted to withdraw material deviations or
reservations once bids have been opened. Bidders shall not be eliminated from detailed evaluation on the basis of non-material, minor deviations or reservations.

(v)  Bidders shall be requested to extend the validity of their bids only under exceptional circumstances and, in all such cases, the Recipient shall communicate such request in writing to all bidders before the date of expiry of their bids. In such a case, bidders shall not be requested nor permitted to amend the price or any other condition of their bid. Bidders shall have the right to refuse to grant such an extension of the validity of their bids without forfeiting their bid securities, but bidders granting such extension shall be required to provide a corresponding extension of their bid security.

(vi) In the case of contracts of more than eighteen (18) months’ duration, the bidding documents and the resultant contract shall provide for price adjustment, based on a formula acceptable to the World Bank, which shall be disclosed to the bidders in the bidding documents.

(vii) The bid of a bidder which refuses to accept arithmetical corrections made by the Evaluation Committee during the evaluation of its bid shall be rejected.

(viii) A bidder shall not be required, as a condition for award, to undertake obligations not specified in the bidding documents or otherwise to modify its bid as originally submitted.

(ix)  There shall be no post-bidding negotiations with the lowest evaluated bidder or any other bidder. No bidder shall be required, as a condition for the award of contract, to change his bid price or otherwise materially alter his bid after it has been submitted.

(h)  Suppliers, Contractors and Subcontractors

(i)  The World Bank shall declare a firm ineligible, either indefinitely or for a stated period, to be awarded a contract financed by the World Bank, if it at any time determines that the firm has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for, or in executing, a contract financed by the World Bank.
(ii) Bidding documents and contracts under national competitive bidding procedures financed by the World Bank shall include a provision requiring suppliers, contractors and subcontractors to permit the World Bank to inspect their accounts and records relating to the bid submission and the performance of the contract by the suppliers, contractors and/or subcontractors as the case may be, and to have them audited by auditors appointed by the World Bank, if so required by the World Bank. The deliberate and material violation by the suppliers, contractors or subcontractors of such provision may amount to obstructive practice which is subject to sanctions under the Guidelines.

(i) Publication of Award of Contract

The Recipient shall publish the following information on contract award on an accessible website when it becomes operational or on another means of publication acceptable to the World Bank: (a) name of each bidder who submitted a bid; (b) bid prices as read out at bid opening; (c) name and evaluated price of each bid that was evaluated; (d) name of bidders whose bids were rejected and the reasons for their rejection; and (e) name of the winning bidder, price it offered as well as the duration and summary scope of the contract award. This publication shall be updated quarterly.

(j) Complaints by Bidders and Handling of Complaints

The provisions of Chapter Seven of the Public Procurement Law of Mongolia on the settlement of disputes shall apply to all World Bank-financed contracts awarded under national competitive bidding procedures.

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 methods, other than Quality and Cost-based Selection, may be used for procurement of consultants’ services for those contracts which are specified in the Procurement Plan: (a) Selection based on Consultants’ Qualifications; (b) Single-source Selection of consulting firms; and (c) Single-source procedures for the Selection of Individual Consultants.
D. **Review by the Association of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. 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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consulting services, consultants’ services, Training, and Incremental Operating Costs</td>
<td>2,700,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Good Governance Performance-Based Financing</td>
<td>13,400,000</td>
<td>100% of amounts disbursed</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>16,100,000</td>
<td></td>
</tr>
</tbody>
</table>

B. **Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except withdrawals
up to an aggregate amount not to exceed $500,000 equivalent may be made for payments made prior to this date but on or after July 1, 2013, for Eligible Expenditures.

2. The Closing Date is December 31, 2018.

Section V. Other Undertakings

If the legal framework for the Local Development Fund has been proposed to be changed in a manner that may materially and adversely affect the operation of the Local Development Fund, the Recipient shall promptly inform the Association, and the Recipient and the Association shall exchange views on such proposal and on the Project, the Financing and the performance of their respective obligations under this Agreement, in accordance with Section 4.10 of the General Conditions.
SCHEDULE 3

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each March 1 and September 1:</td>
<td></td>
</tr>
<tr>
<td>commencing September 1, 2019 to and including March 1, 2029</td>
<td>1.65%</td>
</tr>
<tr>
<td>commencing September 1, 2029 to and including March 1, 2039</td>
<td>3.35%</td>
</tr>
</tbody>
</table>

* 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 1. Definitions

1. “Aimag” means a province of the Recipient.


3. “Bagh” means a rural sub-district of the Recipient.

4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.

5. “Co-financier” means the Swiss Agency for Development and Cooperation;

6. “Co-financing Agreement” means the agreement entered into or to be entered into between the Recipient and each Co-financier providing for the Co-financing.

7. “Co-financing” means, for purposes of paragraph 10 of the Appendix to the General Conditions, an amount equivalent to approximately $11,400,000 be provided by the Swiss Agency for Development and Cooperation to assist in financing Parts 1 and 2 (b) and (c) of the Project.


10. “Environmental and Social Management Plan” means the Recipient’s plan dated December 2012, acceptable to the Association, and publically disclosed on March 28, 2013 which sets out environmental and social protection and mitigation measures as well as the administrative and monitoring arrangements to ensure the implementation of said measures, including: (a) a screening system; (b) environmental management measures for construction activities; (c) a monitoring plan; and (d) an annual environmental audit to review the performance of the Environmental and Social Management Plan implementation; as said Plan may be amended from time to time with the prior agreement of the Association.


12. “Good Governance Performance Assessment Teams” means the teams of independent assessors to be contracted by the Recipient, with terms of reference
and staffing acceptable to the Association, for the purposes of carrying out annual performance assessments under Part 2 (b) of the Project for purposes of deciding the allocation of Good Governance Performance-Based Financing under Part 2 (a) of the Project.

13. “Good Governance Performance-Based Financing” means a grant to be provided to a Soum under Part 2 (a) of the Project, directly linked to governance performance by such Soum in accordance with criteria set out in the Project Implementation Manual.

14. “Incremental Operating Costs” means reasonable expenditures for rental of office space, vehicles' operation and maintenance, in-country travel allowances for PIU staff, banking services and costs for information dissemination, incurred by the PIU in connection with the management and coordination of the Project, as well as travel allowances and per diem for members of the Steering Committee, which expenditures would not have been incurred absent the Project, but excluding salaries of civil servants.

15. “Indigenous Peoples Plan” means the Recipient’s plan, dated December 2012 acceptable to the Association, and publicly disclosed on March 28, 2013 which provides guidance and direction for the participation of indigenous peoples in the Project, in order to ensure full consultation with, and informed participation of, indigenous peoples impacted, or likely to be impacted, by the Project, and to ensure that Project activities adequately address the needs, cultural practices and preferences of such peoples, as said plan may be amended from time to time with the prior agreement of the Association.


17. “Local Development Fund” and the acronym “LDF” mean the formula driven intergovernmental transfer mechanism established under the Integrated Budget Law to provide grants to local authorities for the implementation of basic infrastructure and social service activities identified by community groups at the Soum, Bagh and Duureg level.

18. “Local Development Fund Division” means the division within the Fiscal Policy and Planning Department of the Ministry of Finance, responsible for the administration of the Local Development Fund.

19. “LDF Guidelines” means the guidelines to be adopted by the Recipient for operating the Local Development Fund, as provided for in Schedule 2, Section I, Part B.2 of this Agreement.


22. “Procurement Handbook” means the handbook setting out the procurement procedures for activities or to be financed in whole or part under the Local Development Fund, including out of the proceeds of Good Governance Performance-Based Financing and included in the Project Implementation Manual.

23. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated April 30, 2014 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

24. “Project Area” means all the Recipient’s Aimags, Soums, Bagh and Duuregs.

25. “Project Implementation Manual” means the manual, satisfactory to the Association, adopted by the Recipient for the implementation of the Project and to be maintained and applied as provided for in Schedule 2, Section 1 Part B to this Agreement, as such manual may be amended from time to time with the prior agreement of the Association.

26. “Project Implementing Unit” means the unit referred to in paragraph 1(b) of Section I.A of Schedule 2 to this Agreement.


28. “SDC Co-financing Agreement” means the agreement to be entered into between the Recipient and SDC to provide for the financing of Part 1 of the Project.

29. “SDC” means “Swiss Agency for Development and Cooperation, a Co-financier for the purposes of paragraph 10 of the Appendix to the General Conditions.

30. “Soum Program” means the program described in the policy initiative tabled by the Recipient’s Ministry of Economic Development at the Cabinet Meeting of February 2, 2013, to be designed and implemented by the Recipient to support Soum development with medium development plans of action for investments consistent with the overall development strategy of the Recipient, except that this Project shall support the Soum Program, including provision of training and technical assistance under Part 1 of the Project, when and to the extent that the Association shall make a determination that the Soum Program is consistent with
all applicable social and environmental safeguard and other policies of the Association, and with the objectives of this Project.

31. "Soum Support Teams" means the team established to provide training and technical assistance to local authorities and herder communities under Part of the Project.

32. "Soum" means a rural district of the Recipient.

33. "Steering Committee" means the committee to be established by the Recipient to provide oversight and guidance for the Sustainable Livelihoods Program generally and the Project in particular, and to be maintained in accordance with the provisions of Schedule 2, Section I, Paragraph A.1 (a) to this Agreement, and any successor thereto.

34. "Sustainable Livelihoods 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.

35. "Togrog" and "MNT" mean the lawful currency of the Recipient.

36. "Training" means, for the purposes of the table in Schedule 2, Section IV, Paragraph A.2 of this Agreement, training (including workshops) conducted in the territory of the Recipient or abroad, including the reasonable and necessary incremental expenditures incurred on account of organizing or attending learning and knowledge dissemination events, including fees for educational institutions, fees and allowances for resource persons, travel, and board and lodging for resource persons and trainees, logistics and materials associated with conferences, seminars, workshop and study tours; and other training costs directly associated with the Project, but excluding those provided through consulting services.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Section 3.02 is modified to read as follows:

"Section 3.02. Service Charge and Interest Charge

(a) Service Charge. The Recipient shall pay the Association a service charge on the
Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.

(b) Interest Charge. The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months."

2. Paragraph 28 of the Appendix ("Financing Payment") is modified by inserting the words "the Interest Charge" between the words "the Service Charge" and "the Commitment Charge".

3. The Appendix is modified by inserting a new paragraph 32 with the following definition of "Interest Charge", and renumbering the remaining paragraphs accordingly:

"32. "Interest Charge" means the interest charge specified in the Financing Agreement for the purpose of Section 3.02(b)."

4. Renumbered paragraph 37 (originally paragraph 36) of the Appendix ("Payment Date") is modified by inserting the words "Interest Charges" between the words "Service Charges" and "Commitment Charges".

5. Renumbered paragraph 50 (originally paragraph 49) of the Appendix ("Service Charge") is modified by replacing the reference to Section 3.02 with Section 3.02 (a).