Financing Agreement

(Economic Management Support Operation - First Development Policy Financing)

between

MONGOLIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 1, 2017
FINANCING AGREEMENT

AGREEMENT dated December 1, 2013, entered into between MONGOLIA ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of:

(i) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (ii) the Recipient’s maintenance of an adequate macroeconomic policy framework. The Recipient and the Association therefore 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 eighty six million seven hundred thousand Special Drawing Rights (SDR 86,700,000) (variously, “Credit” and “Financing”).

2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.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 June 15 and December 15 in each year.
2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.

2.08. The Payment Currency is Dollars.

2.09. Without limitation upon the provisions of Section 4.08 of the General Conditions (renumbered as such pursuant to paragraph 4 of Section II of the Appendix to this Agreement and relating to Cooperation and Consultation), the Recipient shall promptly furnish to the Association such information relating to the provisions of this Article II as the Association may, from time to time, reasonably request.

ARTICLE III — PROGRAM

3.01. The Recipient declares its commitment to the Program and its implementation. To this end, and further to Section 4.08 of the General Conditions:

(a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient's macroeconomic policy framework and the progress achieved in carrying out the Program;

(b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension consists of the following, namely that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following, namely that the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework.
5.02. The Effectiveness Deadline is the date one hundred and twenty (120) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is its Minister at the time responsible for Finance.

6.02. The Recipient’s Address is:

Ministry of Finance
Government Building II
S. Danzan Street 5/1
Ulaanbaatar 15160
Mongolia

Facsimile:
976-51-264908

6.03. The Association’s Address is:

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

Facsimile:
1-202-477-6391
AGREED at Ulaanbaatar, Mongolia, as of the day and year first above written.

MONGOLIA

By

[Signature]

Authorized Representative

Name: Khurelbaatar Chimed

Title: Minister of Finance

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]

Authorized Representative

Name: James H. Anderson

Title: Country Manager
SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

The actions taken by the Recipient under the Program include the following:

Pillar I: Restoring Fiscal Sustainability Through Fiscal Adjustment

1. The Recipient has terminated DBM’s financing to capital expenditures through non-commercial loans, as evidenced by Cabinet Resolution No. 219 dated December 28, 2016 and the 2017 Supplementary Budget.

2. The BOM has discontinued net financing to the Housing Mortgage Program, as evidenced by BOM’s letter No. 1/123 dated May 29, 2017, Memorandum of Understanding between the Ministry of Finance and the BOM dated May 19, 2017 and the 2017 Supplementary Budget.

3. The Recipient has raised personal income tax rates on high income groups (as these rates are defined in Article 23.1 of the Personal Income Tax Law) and excise taxes on alcohol and tobacco, with a gradual increase of the minimum income tax threshold to reduce tax burden on lower income groups, as evidenced by the amendments to the Personal Income Tax Law and the Excise Tax Law, both dated April 14, 2017.

4. The Recipient has terminated the Promissory Note Program to prevent using deferred payments to finance capital expenditures, as evidenced by Parliament Resolution number 47 dated September 9, 2016, and the 2017 Supplementary Budget.

Pillar II: Strengthening the Social Protection System

5. The Recipient has maintained the budget allocation for the poverty-targeted Food Stamp Program, in the 2017 Supplementary Budget, excluding administrative costs, at least at the level of the 2017 Original Budget, as evidenced by the Ministry of Finance’s letter No. 4-3/2997 dated May 11, 2017.

6. The Recipient has amended the Social Insurance Law and the Pensions and Benefits Paid from Social Insurance Funds Law to gradually increase the pension insurance contribution rate and the retirement age.

Pillar III: Supporting the Competitiveness of the Economy
7. The Recipient has established the Investor Protection Council, aimed at fostering the timely and systematic resolution of investor grievances, as evidenced by the Prime Minister Decree No. 136 dated December 22, 2016 and the Chairman of the Cabinet Secretariat Ordinance No. 353 dated December 28, 2016.

8. The Government has submitted a draft legislation on animal health to the Parliament, proposing the adoption of an animal health legal framework which is consistent with international standards as these are set forth by the World Organization for Animal Health, as evidenced by the official letter of submission to the Parliament, dated December 28, 2016.

9. The Recipient has ratified the WTO Trade Facilitation Agreement, as evidenced by the WTO Protocol of Amendment dated November 24, 2016.

Section II. Availability of Financing Proceeds

A. General. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.

B. Allocation of Financing Amounts. The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Withdrawal Tranche</td>
<td>86,700,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>86,700,000</td>
</tr>
</tbody>
</table>

C. Withdrawal Tranche Release Conditions. No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied (a) with the Program being carried out by the Recipient, and (b) with the adequacy of the Recipient’s macroeconomic policy framework.

D. Deposits of Financing Amounts. Except as the Association may otherwise agree:

1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and

2. the Recipient shall ensure that upon such deposit of an amount of the Financing into this account, an equivalent amount is deposited into and accounted for in the Recipient’s budget management system, in a manner acceptable to the Association.
E. Excluded Expenditures. The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

F. Closing Date. The Closing Date is July 31, 2018.
**SCHEDULE 2**

**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 June 15 and December 15:</td>
<td></td>
</tr>
<tr>
<td>commencing December 15, 2022 to and including June 15, 2042</td>
<td>1.65%</td>
</tr>
<tr>
<td>commencing December 15, 2042 to and including June 15, 2047</td>
<td>3.4%</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 I. Definitions


3. "BOM" means Bank of Mongolia, the Recipient’s central bank, established and operating pursuant to the Recipient’s law on central bank dated September 3, 1996, as amended to the date of this Agreement, or any successor thereto.

4. "Cabinet Resolution" means a resolution of the Recipient’s cabinet of ministers.

5. "Cabinet Secretariat" means the secretariat of the Recipient’s cabinet of ministers, or any successor thereto.

6. "Chairman of the Cabinet Secretariat Ordinance" means an ordinance issued by the Chairman of the Cabinet Secretariat.

7. "DBM" means the Development Bank of Mongolia, the Recipient’s development bank established and operating pursuant to the Law on Development Bank dated February 10, 2011, as amended to the date of this Agreement, or any successor thereto.

8. "Excise Tax Law" means the Recipient’s law on excise tax dated June 29, 2006, as amended to the date of this Agreement.

9. "Excluded Expenditure" means any expenditure:

(a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;

(b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td></td>
<td>Description</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>-----------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>121</td>
<td>Tobacco, unmanufactured, tobacco refuse</td>
<td></td>
</tr>
<tr>
<td>122</td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
<td></td>
</tr>
<tr>
<td>525</td>
<td>Radioactive and associated materials</td>
<td></td>
</tr>
<tr>
<td>667</td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
<td></td>
</tr>
<tr>
<td>718</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
<td></td>
</tr>
<tr>
<td>728</td>
<td>Tobacco processing machinery</td>
<td></td>
</tr>
<tr>
<td>897</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
<td></td>
</tr>
<tr>
<td>971</td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
<td></td>
</tr>
</tbody>
</table>

(c) for goods intended for a military or paramilitary purpose or for luxury consumption;

(d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;

(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate
action satisfactory to the Association to address such practices when they occur.

10. "Food Stamp Program" means the Recipient's food stamp program established and operating pursuant to the Social Welfare Law, which aims to provide nutrition assistance to the poorest households, or any successor thereto.

11. "Housing Mortgage Program" means the Recipient's housing mortgage program established and operating pursuant to Joint Decree No. A-2/06, dated January 9, 2013, issued by the Governor of the Bank of Mongolia and the Minister of Construction and Urban Development, which aims to provide subsidized loans to mortgage borrowers, or any successor thereto.

12. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 31, 2010 with the modifications set forth in Section II of this Appendix.

13. "Investor Protection Council" means the Recipient's investor protection council, established and operating pursuant to the Prime Minister Decree No. 136 dated December 22, 2016, and the Chairman of the Cabinet Secretariat Ordinance No. 353 dated December 28, 2016, or any successor thereto.


15. "Parliament" means the Recipient's legislative branch of government, or any successor thereto.


17. "Pensions and Benefits Paid from Social Insurance Funds Law" means the Recipient's law of such name dated June 7, 1994, as amended to the date of this Agreement.

18. "Personal Income Tax Law" means the Recipient's law on personal income tax dated June 16, 2006, as amended to the date of this Agreement.

19. "Prime Minister" means the Recipient's Prime Minister, or any successor thereto.

20. "Prime Minister Decree" means a decree issued by the Prime Minister.

21. "Program" means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated June 8, 2017 from the Recipient to the Association declaring the Recipient's commitment to the execution of the Program, and
requesting assistance from the Association in support of the Program during its execution.

22. "Promissory Note Program" means the promissory note program established and operating pursuant to Cabinet Resolution No. 26 dated January 28, 2014, which purpose is to allow the issuance of promissory notes in lieu of cash payments in investment project financing.

23. "Single Withdrawal Tranche" means the amount of the Financing allocated to the category entitled "Single Withdrawal Tranche" in the table set forth in Part B of Section II of Schedule I to this Agreement.

24. "Social Insurance Law" means the Recipient's law of such name dated May 31, 1994, as amended to the date of this Agreement.

25. "Social Welfare Law" means the Recipient's law of such name dated January 19, 2012, as amended to the date of this Agreement.

26. "World Organization for Animal Health" means the world organization for animal health (Office International des Epizooties) established and operating pursuant to the international agreement dated January 25, 1924, or any successor thereto.

27. "WTO" means World Trade Organization, established and operating pursuant to the 1994 Marrakesh Agreement establishing the WTO, or any successor thereto.


29. "WTO Trade Facilitation Agreement" means the trade facilitation agreement which entered into force on February 22, 2017 and is set out in the protocol amending the Marrakesh Agreement establishing the WTO, dated November 27, 2014.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

2. Sections 2.04 (Designated Accounts) and 2.05 (Eligible Expenditures) are deleted in their entirety, and the subsequent Sections in Article II are renumbered accordingly.
3. 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."

4. Sections 4.01 (Project Execution Generally) and 4.09 (Financial Management; Financial Statements; Audits) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.

5. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 4 above and relating to Use of Goods, Works and Services) is deleted in its entirety.

6. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 4 above) is modified to read as follows:

"Section 4.06. Plans; Documents; Records

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association's representatives to examine such records."

7. Paragraph (c) of Section 4.07 (renumbered as such pursuant to paragraph [4] above) is modified to read as follows:

"Section 4.07. Program Monitoring and Evaluation

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing."
8. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as follows:

"Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

(b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term “Financing Payment” is modified by inserting the words “the Interest Charge” between the words “the Service Charge” and “the Commitment Charge”.

(d) A new term called “Interest Charge” is added to read as follows:

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

(e) The term “Payment Date” is modified by inserting the words “Interest Charges” between the words “Service Charges” and “Commitment Charges”.

(f) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

"Program” means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.

(g) The term “Service Charge” is modified by replacing the reference to Section 3.02 with Section 3.02 (a).