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GRANT NUMBER 9183-MON (EF)

GRANT AGREEMENT  
(Externally Financed)

(Integrated Livelihoods Improvement and Sustainable Tourism in Khuvsgul Lake National  
Park Project)

between

MONGOLIA

and

ASIAN DEVELOPMENT BANK

DATED 26 JANUARY 2016

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MON 48216

**GRANT AGREEMENT  
(Externally Financed)**

GRANT AGREEMENT dated 26 January 2016 between MONGOLIA ("Recipient") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Recipient has applied to the Japan Fund for Poverty Reduction for a grant, to be administered by ADB, for the purposes of the Project described in Schedule 1 to this Grant Agreement; and

(B) ADB has agreed to make the proceeds of the grant from the Japan Fund for Poverty Reduction available to the Recipient upon the terms and conditions set forth herein;

NOW THEREFORE the parties agree as follows:

**ARTICLE I**

**Grant Regulations; Definitions**

Section 1.01. All provisions of the Externally Financed Grant Regulations of ADB, dated 8 April 2009 ("Grant Regulations"), are hereby made applicable to this Grant Agreement with the same force and effect as if they were fully set forth herein.

Section 1.02. Wherever used in this Grant Agreement, the several terms defined in the Grant Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Grant Agreement have the following meanings:

(a) "Consulting Guidelines" means the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2013, as amended from time to time);

(b) "Consulting Services" means the services to be financed out of the proceeds of the Grant;

(c) "EARF" or "Environmental Assessment and Review Framework" means the Environmental Assessment and Review Framework set out in the PAM;

(d) "Environmental Safeguards" means the principles and requirements set forth in Chapter V, Appendix 1, and Appendix 4 (as applicable) of the SPS;

(e) "Gender Action Plan" or "GAP" means a gender action plan for the Project, including any update thereto, set out in the PAM;

(f) "Goods" means equipment and materials to be financed out of the proceeds of the Grant, including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding Consulting Services;

(g) "Indigenous Peoples Safeguards" means the principles and requirements set forth in Chapter V, Appendix 3, and Appendix 4 (as applicable) of the SPS;

(h) "Involuntary Resettlement Safeguards" means the principles and requirements set forth in Chapter V, Appendix 2, and Appendix 4 (as applicable) of the SPS;

(i) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2015, as amended from time to time);

(j) "MEGDT" means the Mongolia Ministry of Environment, Green Development and Tourism;

(k) "PAM" means the project administration manual for the Project dated 16 September 2015 and agreed between the Recipient and ADB, as updated from time to time in accordance with the respective administrative procedures of the Recipient and ADB;

(l) "Procurement Guidelines" means ADB's Procurement Guidelines (2015, as amended from time to time);

(m) "Procurement Plan" means the procurement plan for the Project dated 16 September 2015 and agreed between the Recipient and ADB, as updated from time to time in accordance with the Procurement Guidelines, the Consulting Guidelines, and other arrangements agreed with ADB;

(n) "Project Executing Agency" or "EA" means MEGDT, acting through its Department of Protected Areas Management;

(o) "Project Implementing Agency" or "IA" means Khuvsgul Lake National Park Administration under the Department of Protected Area Management in MEGDT; and

(p) "Safeguard Policy Statement" or "SPS" means ADB's Safeguard Policy Statement (2009).

## ARTICLE II

### The Grant

Section 2.01. (a) ADB agrees to make available to the Recipient a grant from Japan Fund for Poverty Reduction in the amount of three million Dollars (\$3,000,000).

## ARTICLE III

### Use of Proceeds of the Grant

Section 3.01. The Recipient shall make the proceeds of the Grant available to the Project Executing Agency and shall cause the Project Executing Agency and the Project Implementing Agency to apply the proceeds to the financing of expenditures on the Project in accordance with the provisions of this Grant Agreement.

Section 3.02. The proceeds of the Grant shall be allocated and withdrawn in accordance with the provisions of Schedule 2 to this Grant Agreement, as such Schedule may be amended from time to time by agreement between the Recipient and ADB.

Section 3.03. Except as ADB may otherwise agree, the Recipient shall procure, or cause to be procured, the items of expenditure to be financed out of the proceeds of the Grant in accordance with the provisions of Schedule 3 to this Grant Agreement.

Section 3.04. Withdrawals from the Grant Account in respect of Goods and Consulting Services shall be made only on account of expenditures relating to:

(a) Goods which are produced in and supplied from and Consulting Services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and

(b) Goods and Consulting Services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 30 June 2020 or such other date as may from time to time be agreed between the Recipient and ADB.

## ARTICLE IV

### Particular Covenants

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Recipient shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Grant Agreement.

Section 4.02. (a) The Recipient shall and shall cause the Project Executing Agency and Project Implementing Agency to (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with accounting principles acceptable to ADB; (iii) have such financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with

international standards for auditing or the national equivalent acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report (which includes the auditors' opinion on the financial statements, use of the Grant proceeds and compliance with the financial covenants of this Grant Agreement as well as on the use of the procedures for imprest account and statement of expenditure) and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (v) furnish to ADB, no later than 6 months after the end of each related fiscal year, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 30 days of the date of their receipt by posting them on ADB's website.

(c) The Recipient shall, and shall cause the Project Executing Agency and Project Implementing Agency to, enable ADB, upon ADB's request, to discuss the financial statements for the Project and the Recipient's, Project Executing Agency's and Project Implementing Agency's financial affairs where they relate to the Project with the auditors appointed pursuant to subsection (a)(iii) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of the Recipient, unless the Recipient shall otherwise agree.

Section 4.03. The Recipient shall, and shall cause the Project Executing Agency and Project Implementing Agency to, enable ADB's representatives to inspect the Project, the Goods, and any relevant records and documents.

Section 4.04. The Recipient acknowledges and agrees that this Grant Agreement is entered into by ADB, not in its individual capacity, but as grant administrator for the Japan Fund for Poverty Reduction. Accordingly, the Recipient agrees that (a) it may only withdraw Grant proceeds to the extent that ADB has received proceeds for the Grant from the Government of Japan, and (b) that ADB does not assume any obligations or responsibilities of Japan Fund for Poverty Reduction in respect of the Project or the Grant other than those set out in this Grant Agreement.

## **ARTICLE V**

### **Effectiveness**

Section 5.01. A date 90 days after the date of this Grant Agreement is specified for the effectiveness of this Grant Agreement for the purposes of Section 9.04 of the Grant Regulations.

**ARTICLE VI**

**Miscellaneous**

Section 6.01. The Minister of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.02 of the Grant Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Grant Regulations:

For the Recipient

Ministry of Finance  
Government Building 2  
S. Danzan Street 5/1  
Ulaanbaatar 15160  
Mongolia

Facsimile Number:

+(976) 51-267468

For ADB

Asian Development Bank  
6 ADB Avenue  
Mandaluyong City  
1550 Metro Manila  
Philippines

Facsimile Numbers:

(632) 636-2444  
(632) 636-2534.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Grant Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

MONGOLIA

By   
BOLOR BAYARBAATAR  
Minister  
Ministry of Finance

ASIAN DEVELOPMENT BANK

By   
ROBERT SCHOELLHAMMER  
Country Director  
Mongolia Resident Mission

## SCHEDULE 1

### Description of the Project

1. The objective of the Project is to improve livelihoods in the Khuvsgul *Aimag* and improve management of natural resources in Khuvsgul Lake National Park.

2. The Project comprises:

**Output 1: Community-based tourism in Khatgal and Khankh settlements promoted.**

This output will: (i) establish a pilot co-management initiative for tourism by the park administration, communities, tour operators and soum governments; (ii) develop a shared stakeholder vision, targets for tourism management, and tourism codes of practice, for the Khuvsgul Lake National Park; and (iii) promote and strengthen community-based tourism initiatives, based on small-scale household enterprises.

**Output 2: Capacity for sustainable livestock and pasture management in the Khuvsgul Lake National Park improved.**

This output will: (i) establish herder groups among the herding families in the Khuvsgul Lake National Park and its buffer zone; (ii) establish herder management plans for herder groups; and (iii) support income diversification for herder families.

**Output 3: Waste management around Khuvsgul Lake strengthened.**

This output will: (i) implement a water quality monitoring program tailored to Project activities; (ii) implement a pilot community-led waste management program, including waste-management teams, installation of environmentally-friendly toilet facilities and litter bins and phasing in campsite fees to pay for waste-management; and, (iii) conduct a review and recommend zonation of the Khuvsgul Lake National Park to identify zoning which maximizes benefits to livelihoods, tourism, and conservation.

3. The Project Completion Date shall be 31 December 2019.



**SCHEDULE 2****Allocation and Withdrawal of Grant Proceeds**General

1. The table attached to this Schedule sets forth the Categories of items of expenditure to be financed out of the proceeds of the Grant and the allocation of the Grant proceeds to each such Category ("Table"). (Reference to "Category" in this Schedule is to a Category or Subcategory of the Table.)

Basis for Withdrawal from the Grant Account

2. Except as ADB may otherwise agree, the proceeds of the Grant shall be disbursed on the basis of the withdrawal percentage for each item of expenditure set forth in the Table.

Reallocation

3. Notwithstanding the allocation of Grant proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Grant allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Recipient, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Grant which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Grant allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Recipient, reallocate such excess amount to any other Category.

Disbursement Procedures

4. Except as ADB may otherwise agree, the Grant proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.

Condition for Withdrawals from Grant Account

5. Notwithstanding any other provision of this Grant Agreement, no withdrawals shall be made from the Grant Account until the Project Executing Agency has certified to ADB that the Project Management Unit identified in the PAM has engaged a qualified accountant meeting the requirements set out in the PAM.

TABLE

<b>ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS*</b> (Integrated Livelihoods Improvement and Sustainable Tourism in Khuvsgul Lake National Park Project)			
<b>Number</b>	<b>Item</b>	<b>Total Amount Allocated for ADB Financing (\$)</b>	<b>Percentage and Basis for Withdrawal from the Loan Account</b>
1	Goods and Services	502,500	100% of total expenditure
2	Pilot Community Funds and Groups	628,960	100% of total expenditure
3	Training	237,120	100% of total expenditure
4	Consulting Services	862,016	100% of total expenditure
5	Project Management	285,120	100% of total expenditure
6	Unallocated	484,284	100% of total expenditure
	<b>Total</b>	<b>3,000,000</b>	

\*Subject to the condition in paragraph 5 of Schedule 2.

**SCHEDULE 3****Procurement of Goods and Consulting Services**General

1. The procurement of Goods and Consulting Services shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used in this Schedule and not otherwise defined in this Grant Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

Goods

3. Except as ADB may otherwise agree, Goods shall only be procured on the basis of the methods of procurement set forth below:
  - (a) Shopping for Goods;
  - (b) Community Participation for Goods and Services; and
  - (c) Direct Contracting.

4. The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Recipient may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

Consulting Services

5. Except as ADB may otherwise agree, the Recipient shall apply (i) individual consultant selection (ICS), (ii) Consultants' Qualification Selection (CQS), and (iii) Least-Cost Selection (LCS) for selecting and engaging Consulting Services.

Industrial or Intellectual Property Rights

6. (a) The Recipient shall ensure that all Goods procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Recipient shall ensure that all contracts for the procurement of Goods contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

7. The Recipient shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

ADB's Review of Procurement Decisions

8. Contracts for Consulting Services shall be subject to prior review by ADB, unless otherwise agreed between the Recipient and ADB and set forth in the Procurement Plan.

ADB Member Countries

9. The Recipient has been advised that the Russian Federation is not a member country of ADB, so it will ensure that procurement using Grant funds does not include procurement from the Russian Federation.

## SCHEDULE 4

### Execution of Project; Financial Matters

#### Implementation Arrangements

1. The Recipient shall and shall cause the Project Executing Agency to ensure that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such change by the Recipient and ADB. In the event of any discrepancy between the PAM and this Grant Agreement, the provisions of this Grant Agreement shall prevail.
2. The Recipient shall cause MEGDT to include the Project in the annual workplan of its Economic, Financial and Planning Division (EFPD), to provide internal departmental oversight and support to the Project Executing Agency for project accounting and auditing.
3. The Recipient shall cause the Project Management Unit identified in the PAM to, not later than 3 months after the effective date of the Grant Agreement, commence using accounting software for the Project acceptable to ADB.

#### Safeguards

4. The Recipient shall, and shall cause the Project Executing Agency to, ensure that the Project does not have any environmental, indigenous peoples or involuntary resettlement impacts within the meaning of the SPS. In the event that the Project does have any such impact, the Recipient shall and shall cause the Project Executing Agency to take all steps required to ensure that the Project complies with the applicable laws and regulations of the Recipient and with the SPS.
5. The Recipient shall cause the Project Executing Agency to ensure that the Project Implementing Agency establishes a safeguards grievance redress mechanism acceptable to ADB in accordance with the provisions of the EARF at the office of the project implementing unit, within the timeframes specified in the EARF, to consider safeguards complaints promptly, using an understandable and transparent process that is gender responsive, culturally appropriate, and readily accessible to all stakeholders at no cost and without retribution.

#### Environment

6. The Recipient shall and shall cause the Project Executing Agency to ensure that the preparation, design, construction, implementation, operation and decommissioning of the Project and all Project facilities comply with (a) all applicable laws and regulations of the Recipient relating to environment, health and safety; (b) the Environmental Safeguards; and (c) the EARF and any corrective or preventative actions (i) set forth in a Safeguards Monitoring Report, or (ii) which are subsequently agreed between ADB and the Recipient.

7. In the event that MEGDT requires a General Environmental Impact Assessment (EIA) or Detailed EIA for any Project activities, the Recipient shall ensure that MEGDT, and not the Project grant or the Project team, will be responsible for the payment and specialist works required for the preparation and approval of these documents.

#### Prohibited List of Investments

8. The Recipient shall and shall cause the Project Executing Agency to ensure that no proceeds of the Grant are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the SPS.

#### Labor Standards, Health and Safety

9. The Recipient shall and shall cause the Project Executing Agency to ensure that the Recipient's laws and regulations concerning labor standards, health and safety are complied with during Project implementation. The Recipient shall include specific provisions in the bidding documents and contracts financed by ADB under the Project requiring that the contractors, among other things: (a) comply with the Recipient's applicable labor law and regulations and incorporate applicable workplace occupational safety norms; (b) do not use child labor; (c) do not discriminate workers in respect of employment and occupation; (d) do not use forced labor; (e) allow freedom of association and effectively recognize the right to collective bargaining; and (f) disseminate, or engage appropriate service providers to disseminate, information on the risks of sexually transmitted diseases, including HIV/AIDS, to the employees of contractors engaged under the Project and to members of the local communities surrounding the Project area, particularly women.

#### Gender and Development

10. The Recipient shall ensure that (a) the GAP is implemented in accordance with its terms; (b) the bidding documents and contracts include relevant provisions for contractors to comply with the measures set forth in the GAP; (c) adequate resources are allocated for implementation of the GAP; and (d) progress on implementation of the GAP, including progress toward achieving key gender outcome and output targets, are regularly monitored and reported to ADB. Without limiting the generality of the foregoing, the Recipient shall exert its best endeavours to ensure that around 20 herder groups are established, of which adult women comprise at least 30% of adults; around 40% of Project beneficiaries are from disadvantaged households and that at least 40% of community-based tourism initiatives supported by the Project are led by women.

#### Governance and Anticorruption

11. The Recipient shall and shall cause the Project Executing Agency and the Project Implementing Agency to (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

12. The Recipient shall and shall cause the Project Executing Agency and the Project Implementing Agency to ensure that anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Project.

13. The Recipient shall ensure that (a) the Project Executing Agency and the Project Implementing Agency comply with applicable laws and regulations of the Recipient on combating money laundering and financing of terrorism; and (b) Grant proceeds are not used, directly or indirectly, in money laundering or financing of terrorism.

#### Grant Refund

14. If ADB determines that an amount of the Grant has been used in a manner inconsistent with the provisions of this Grant Agreement, the Recipient shall, upon notice by ADB to the Recipient, promptly refund such amount to ADB. Except as ADB may otherwise determine, ADB shall cancel all amounts refunded pursuant to this provision.

#### Particular Project Covenants

15. The Recipient shall ensure that the Project Executing Agency and the Project Implementing Agency enforce laws and regulations of the Khuvsgul Lake National Park in support of Project activities, including, without limitation, all laws and regulations restricting tourist camping to delineated campsite areas.

16. The Recipient shall ensure that the Project Executing Agency and Project Implementing Agency submit to ADB plans for the Project programs in (a) co-management for tourism, (b) community-led waste management program and (c) community revolving loan funds for ADB's prior review and approval prior to implementing such programs. In addition, for each community revolving loan fund established under the Project, the Recipient shall ensure that the detailed rules, procedures and template agreements for the funds: are suitable for the needs of the community; pay due attention to governance, transparency and long-term sustainability of the funds; support the diversification and enhancement of community incomes; comply with the EARF and the Gender Action Plan; require that all loans support either tourism related business or sustainable herding; require that no loan made with such funds is used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the SPS or any activity that is inconsistent with the Khuvsgul Lake National Park Management Plan (2014) or relevant laws and regulations.

#### Donor-specific Covenants

17. The Recipient shall and shall cause the Project Executing Agency and Project Implementing Agency to comply with the Guidelines on Japan Visibility and Coordination with Local Embassy of Japan Officials of the JFPR Policy Guidelines (a copy of which has been provided to the Recipient, the EA and the IA); and in particular, shall include, and cause the Project Implementing Agency to include, a Japan Fund for Poverty Reduction logo in all relevant Project publications and on any equipment, vehicles, project billboards or signage funded by this Grant and indicate, in all publications, training