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LOAN NUMBER 3338-MON

LOAN AGREEMENT  
(Ordinary Operations)

(Supporting the Credit Guarantee System for Economic Diversification and Employment  
Project)

between

MONGOLIA

and

ASIAN DEVELOPMENT BANK

DATED 8 January 2016.

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MON 48015

**LOAN AGREEMENT  
(Ordinary Operations)**

LOAN AGREEMENT dated 8 January 2016 between  
MONGOLIA ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Borrower has applied to ADB for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement;

(B) the Project will be carried out by the Ministry of Finance ("MOF") of the Borrower, Credit Guarantee Fund of Mongolia ("CGFM") and participating financial institutions ("PFIs"), and for this purpose the Borrower will make available to CGFM and PFIs the proceeds of the loan provided for herein upon terms and conditions satisfactory to ADB; and

(C) ADB has agreed to make a loan to the Borrower from ADB's ordinary capital resources upon the terms and conditions set forth herein and in the Project Agreement of even date herewith between ADB and CGFM ("CGFM Project Agreement").

NOW THEREFORE the parties hereto agree as follows:

**ARTICLE I**

**Loan Regulations; Definitions**

Section 1.01. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001 ("Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) Section 2.01(50) is deleted and the following is substituted therefor:

"Project Agreement" means the Project Agreement of even date herewith between ADB and CGFM.

(b) The term "Project Executing Agency" appearing in Section 7.04(b), 9.01(d), 9.01(f), 9.01(k), 10.01(c) and 10.02(c) of the Loan Regulations shall be substituted by the term "CGFM".

(c) Section 3.03 is deleted and the following is substituted therefor:

**Commitment Charge; Credit; Maturity Premium.** (a)  
The Borrower shall pay a commitment charge on the

unwithdrawn amount of the Loan at the rate and on the terms specified in the Loan Agreement.

(b) ADB shall provide to the Borrower a credit at the rate specified in the Loan Agreement, which credit shall remain fixed for the term of the Loan. ADB shall apply the credit against the interest payable by the Borrower.

(c) The Borrower shall pay a maturity premium at the rate specified in the Loan Agreement, which maturity premium shall remain fixed for the term of the Loan. ADB shall add the maturity premium to the interest payable by the Borrower.

(d) Section 3.06 is deleted and the following is substituted therefor:

**Rebate.** (a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be reduced, ADB shall provide a Rebate to any Borrower with an outstanding Loan on which a higher Fixed Spread is applicable. The amount of the Rebate shall be determined by multiplying (i) the difference between the Fixed Spread applicable to the outstanding Loan and the Fixed Spread that will be applied to new Loans (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the lower Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB achieving savings, ADB shall provide a Rebate to the Borrower. The amount of the Rebate shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall apply the amount of the Rebate against the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

(e) Section 3.07 is deleted and the following is substituted therefor:

**Surcharge.** (a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be increased, any Borrower with an outstanding Loan on which a lower Fixed Spread is applicable shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by

multiplying (i) the difference between the Fixed Spread that will be applied to new Loans and the Fixed Spread applicable to the outstanding Loan (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the higher Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB incurring additional costs, the Borrower shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall add the amount of the Surcharge to the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

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

(a) "CGFM" means the Credit Guarantee Fund of Mongolia established under the Law on the Credit Guarantee Fund of Mongolia of 2012;

(b) "CGFM Project Agreement" means the project agreement between ADB and CGFM, as such agreement may be amended in accordance with its terms from time to time;

(c) "CGFM PIU" means the staff designated within CGFM responsible for support, review and report on Project implementation and meeting the requirements set forth in the PAM;

(d) "EMP" means each environmental management plan for a Qualified SME Subproject, including any update thereto, prepared in accordance with the requirements of the ESMS;

(e) "Escrow Account" means an escrow account under the name of CGFM at a PFI for the purpose of retaining recycled funds and for issuance of new Time Deposits;

(f) "ESMS" means an environmental and social management system, which includes the elements of an environmental assessment and review framework developed for the Project, to provide guidance to PFIs with screening prospective SME

subprojects in accordance with Borrower's laws and SPS and cleared by ADB, including any updates thereto;

(g) "Goods" means equipment and materials to be financed out of the proceeds of the SME Loans, including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;

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

(i) "MNT" means the Tugrik, the lawful currency of Mongolia;

(j) "MOF" means the Ministry of Finance of the Borrower or any legal successor thereto acceptable to ADB;

(k) "PAM" means the project administration manual for the Project dated 1 October 2015 and agreed between the Borrower, CGFM and ADB, as updated from time to time in accordance with the respective administrative procedures of the Borrower, CGFM and ADB;

(l) "PFI" means a participating financial institution located in the territory of Mongolia which satisfies the eligibility criteria set out in paragraphs 3 and 4 of Schedule 5 of this Loan Agreement;

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

(n) "Project Executing Agency" means the Ministry of Finance of the Borrower or any legal successor thereto acceptable to ADB, which is responsible for carrying out the Project;

(o) "Project Implementing Agency" means the CGFM or any legal successor thereto acceptable to ADB, which is responsible for the implementation of the Project;

(p) "Qualified SME Borrower" means a small and medium enterprise located in Mongolia, which satisfies the eligibility criteria set out in paragraph 10 of Schedule 5 of this Loan Agreement and to which a PFI proposes to make an SME Loan, as such term is defined hereunder;

(q) "Qualified SME Subproject" means a subproject which satisfies the eligibility criteria set out in paragraph 12 of Schedule 5 to this Loan Agreement and to be carried out by a Qualified SME Borrower utilizing the proceeds of a SME Loan, as such term is defined hereunder;

(r) "Safeguard Policy Statement" or "SPS" means ADB's Safeguard Policy Statement (2009);

(s) "Safeguards Monitoring Report" means each report prepared and submitted by a PFI to the Borrower, CGFM and ADB on the PFI's performance with respect to the ESMS, including any corrective and preventative actions;

(t) "SME" means small and medium enterprise;

(u) "SME Loan" means a loan made or proposed to be made which meets the criteria set out in paragraph 9 of Schedule 5 of this Loan Agreement, to a Qualified SME Borrower by a PFI out of the proceeds of a Time Deposit, as such term is defined hereunder;

(v) "SME Loan Agreement" means a loan agreement entered into by and between a PFI and a Qualified SME Borrower in relation to a SME Loan, as such term is defined hereunder;

(w) "Statement of Utilization of Funds" means the statement of utilization of funds of a PFI detailing the list of SME Loans issued by it with breakdown by the Loan and CGFM funds used, as further described in the PAM;

(x) "Subaccount" means a subaccount under the name of CGFM at a PFI for the purpose of receiving Loan funds from MOF converted into MNT and placing Time Deposits with PFI which balance may not at any time exceed fund projection for the subsequent six months, as further described in the PAM;

(y) "Subloan" means a subsidiary loan or loans in MNT made by the Borrower to CGFM under the Subsidiary Loan Agreement;

(z) "Subsidiary Loan Agreement" or "SLA" means the agreement entered into between the Borrower and CGFM for the purposes of relending the entire proceeds of the Loan referred to in Section 3.01 of this Loan Agreement;

(aa) "Time Deposit" means a time deposit placed with a PFI by CGFM out of the proceeds of the Loan, meeting the requirements set forth in this Loan Agreement and the PAM;

(bb) "Time Deposit Agreement" means an agreement entered into between CGFM and a PFI in relation to a Time Deposit referred to in Section 4.01 of this Loan Agreement; and

(cc) "Works" means construction or civil works to be financed out of the proceeds of the SME Loans, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding consulting services.

**ARTICLE II****The Loan**

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of sixty million Dollars (\$60,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Loan has a principal repayment period of six years, and a grace period as defined in subsection (c) hereinafter.

(c) The term "grace period" as used in subsection (b) hereinabove means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of:

- (a) LIBOR;
- (b) 0.60% as provided by Section 3.02 of the Loan Regulations less a credit of 0.10% as provided by Section 3.03 of the Loan Regulations; and
- (c) a maturity premium of 0.10% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the Loan (less amounts withdrawn from time to time), commencing 60 days after the date of this Loan Agreement.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 15 February and 15 August in each year.

Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 2 to this Loan Agreement.

Section 2.06. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, whether withdrawn and outstanding or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and

outstanding from a Floating Rate to a Fixed Rate, or vice versa;  
and

- (iii) the setting of limits on the Floating Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Floating Rate.

(b) Any conversion requested pursuant to subsection (a) hereinabove that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(6) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

### ARTICLE III

#### Use of Proceeds of the Loan

Section 3.01. (a) Upon receipt of the Loan, the Borrower shall immediately convert proceeds of the Loan into MNT and relend the proceeds of the Loan in MNT to CGFM under the Subsidiary Loan Agreement, and upon receipt of the funds in MNT, CGFM shall immediately deposit the funds into the Subaccount for placing Time Deposits and any interest earned on the Subaccount shall be retained by CGFM.

(b) The Subsidiary Loan Agreement shall be in form and on terms and conditions acceptable to ADB, and shall be without prejudice to, and without limitation on, the obligations of the Borrower under this Loan Agreement. Except as ADB may otherwise agree, the terms for relending the proceeds of the Loan in MNT to CGFM shall include: (i) for the first three years of the Loan, an interest rate up to of 1% on the balance of the Loan funds disbursed to CGFM in MNT, and after the first three years of the Loan, the Borrower may charge CGFM on the disbursed Loan balance a maximum of the pass-through rate of interest charged by ADB, plus up to 0.5% and may additionally charge up to 0.15% on the undisbursed balance of the Loan; and (ii) a repayment tenor consistent with the Loan.

(c) The Borrower shall cause the proceeds of the Loan to be applied to the financing of the Project in accordance with this Loan Agreement and CGFM Project Agreement. Except as ADB may otherwise agree, such proceeds shall be used for making SME Loans to Qualified SME Borrowers for Qualified SME Subprojects and shall be applied exclusively to the cost of Goods and Works and other items of expenditures required to carry out such Qualified SME Subprojects.

Section 3.02. The proceeds of the Loan shall be withdrawn in accordance with the provisions of Schedule 3 of this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, the Borrower shall ensure or shall cause CGFM and PFIs to ensure that the Qualified SME Borrowers procure, or cause to be procured, all Goods and Works in accordance with the provisions of Schedule 4 to this Loan Agreement. ADB may refuse to finance a contract where such item



has not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 3.04. With respect to the amount included in the Loan for financing interest and commitment charges on the Loan during implementation of the Project, ADB shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Borrower, the amounts required to meet payments, when due, of such interest and commitment charges.

Section 3.05. The Loan Closing Date for the purposes of Section 9.02 of the Loan Regulations shall be 31 October 2021 or such other date as may from time to time be agreed between the Borrower and ADB.

Section 3.06. All payment and repayment obligations of the Borrower under the Loan are independent of the timely and due performance by (i) CGFM under the Subsidiary Loan Agreement, (ii) PFIs under the Time Deposit Agreements and (iii) Qualified SME Borrowers under the SME Loan Agreements and, any conversion or hedging risk borne by the Borrower in the conversions of the Loan into MNT or reconversion to USD, and shall be fulfilled by the Borrower solely in accordance with the provisions of this Loan Agreement.

## ARTICLE IV

### Time Deposits

Section 4.01. (a) The Borrower shall cause CGFM to enter into a Time Deposit Agreement in relation to a Time Deposit, providing *inter alia*, for the deposit of the proceeds of the Loan converted to MNT to such PFI for the carrying out of the Project, and the rights of the Borrowers and ADB with respect thereto.

(b) The Borrower shall cause CGFM to ensure that each Time Deposit Agreement shall be in a form and on terms and conditions acceptable to ADB, and shall be without prejudice to, and without limitation on, the obligations of the Borrower under this Loan Agreement. Subject to the foregoing, and except as ADB may otherwise agree, each Time Deposit shall (i) be denominated in MNT; (ii) have a maturity linked to the tenor of the SME Loans eligible for funding under the Loan, up to a five-year maturity and will be rolled-over to the remaining maturity of the SME Loans as provided in the PAM; (iii) pay a market-based rate in line with the Borrower and other development agencies' loan financing programs as determined by ADB from time to time and detailed in the PAM; (iv) include as a termination event the failure of the relevant PFI to comply with any obligation set forth in paragraphs 3 and 4 of Schedule 5 of this Loan Agreement; and (v) provide that the Time Deposit cannot be pledged, retained or claimed by the PFI should the PFI have a claim under a credit guarantee issued by CGFM.

(d) The Borrower shall cause CGFM to ensure that after the maturity of each Time Deposit, the funds shall be immediately deposited in the Escrow Account. Any interest earned on the Time Deposits and Escrow Account shall be retained by CGFM.

Section 4.02. (a) The Borrower shall cause CGFM to promptly and effectively exercise its rights under each Time Deposit Agreement and, whenever legally permissible, under each SME Loan Agreement in accordance with the prudent standards and in such manner as to protect the interests of CGFM and ADB and to accomplish the purposes of the Loan.

(b) No rights or obligations under a Time Deposit Agreement shall be assigned, amended, abrogated or waived nor any modifications or changes to a Time Deposit Agreement shall be made or otherwise agreed to by CGFM without prior consent of ADB and MOF.

## ARTICLE V

### Particular Covenants

Section 5.01. (a) In the carrying out of the Project, the Borrower shall perform, or cause to be performed, all the obligations set forth in Schedule 5 to this Loan Agreement.

(b) The Borrower shall cause CGFM to carry out the Project in accordance with the CGFM Project Agreement.

Section 5.02. In addition to the reports and information set forth in Section 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the (a) administration, operations and financial condition of CGFM and the PFIs; and (b) Time Deposits, Qualified SME Borrowers, Qualified SME Subprojects and SME Loans. All reports and information provided to ADB by CGFM or by the PFIs, at the request of the Borrower, for the purposes of compliance with the eligibility criteria for the Qualified SME Borrowers and the Qualified SME Subprojects will be provided in reliance on the relevant Qualified SME Borrower's representations and adequate due diligence by the PFIs concerned.

Section 5.03. (a) The Borrower shall or shall cause CGFM to (i) maintain separate accounts and records for the Project; (ii) prepare an annual consolidated Statement of Utilization of Funds for the Project in accordance with accounting principles acceptable to ADB; (iii) have such consolidated Statement of Utilization of Funds 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 consolidated Statement of Utilization of Funds, use of the Loan proceeds and compliance with the financial covenants of this Loan Agreement and the CGFM Project Agreement as well as on the use of the procedures for the imprest fund, the Subaccount and statement of expenditures) 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 fiscal year to which they relate, copies of such audited consolidated Statement of Utilization of Funds, 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 consolidated Statement of Utilization of Funds 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) In addition to the annual consolidated Statement of Utilization of Funds referred to in subsection (a) hereinabove, the Borrower shall ensure that CGFM shall (i) provide its annual consolidated financial statements prepared in accordance with international financial reporting standard which shall be supported by a statement of Time Deposits to be reconciled and confirmed by auditors against the audited Statement Utilization of Funds of the PFIs, as further described in the PAM; (ii) have its consolidated 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; and (iii) furnish to ADB, no later than 1 month after approval by the relevant authority, copies of such audited financial statements in English language and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(d) The Borrower shall enable ADB, upon ADB's request, to discuss the consolidated Statement of Utilization of Funds and the financial statements for the Project and the Borrower's and CGFM'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 Borrower, unless the Borrower shall otherwise agree.

Section 5.04. The Borrower shall cause CGFM to (i) conduct its business and operations with due diligence and efficiency and in conformity with sound applicable banking, administrative, financial and business practices and (ii) promptly as required, take all action within its powers to maintain its existence, to carry on its operations and to acquire, maintain and renew all its rights, properties, powers, authorization, license and privileges which as necessary for the carrying out of the Project or in the conduct of its business.

Section 5.05. The Borrower shall cause CGFM to cause the PFIs to enable ADB's representatives to inspect any Qualified SME Borrower, any Qualified Subproject, the Goods and Works, and any relevant records and documents maintained by PFIs (at the request of CGFM), concerning the Project.

Section 5.06. The Borrower shall promptly take all action, including the provision of funds, which shall be necessary on its part to enable CGFM to perform its obligations under the CGFM Project Agreement and shall not take or permit any action which would interfere with the performance of such obligations.

Section 5.07. (a) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.

(b) No rights or obligations under the Subsidiary Loan Agreement shall be assigned, amended, abrogated or waived without the prior concurrence of ADB.

**ARTICLE VI**

**Suspension**

Section 6.01. The following is specified as an additional event for suspension of rights of the Borrower to make withdrawals from the Loan Account for the purposes of Section 9.01(l) of the Loan Regulations: CGFM or a PFI shall have failed to perform any of its respective obligations under a Time Deposit Agreement.

**ARTICLE VII**

**Effectiveness**

Section 7.01. A date 90 days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 10.04 of the Loan Regulations.

**ARTICLE VIII**

**Delegation of Authority**

Section 8.01. The Borrower hereby designates MOF as its agent for the purposes of taking any action or entering into any agreement required or permitted under Sections 3.03 and 3.06 of this Loan Agreement and under Sections 6.01, 6.02, 6.03 and 6.04 of the Loan Regulations.

Section 8.02. Any action taken or any agreement entered into by MOF pursuant to the authority conferred under Section 8.01 of this Loan Agreement shall be fully binding on the Borrower and shall have the same force and effect as if taken by the Borrower.

Section 8.03. The authority conferred on MOF under Section 8.01 of this Loan Agreement may be revoked or modified by agreement between the Borrower and ADB.

**ARTICLE IX**

**Miscellaneous**

Section 9.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 9.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

Ministry of Finance  
Government Building 2  
S. Danzan Street 5/1  
Chingeltei District  
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) 636-2494.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan 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  \_\_\_\_\_  
B. BOLOR  
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 expand access to finance for SMEs.
2. The Project shall comprise the following outputs:  
  
Output 1: **Longer-term financing for SMEs increased** by providing funding enabling PFIs to make long-term loans denominated in local currency to SMEs for eligible subprojects and backing the introduction of new guarantee products to support SME subprojects.  
  
Output 2: **A longer-term bank deposit market developed** by placing funds in MNT time deposits by CGFM in PFIs establishing a market for 5-year deposits, building confidence in the MNT deposit market and encouraging private sector saving mobilization into longer-term funding.
3. The Project is expected to be completed by 31 March 2021.

## SCHEDULE 2

### Amortization Schedule

#### (Supporting the Credit Guarantee System for Economic Diversification and Employment Project)

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by ADB by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Payment Due	Installment Share (Expressed as a %)
15 February 2028	8.333333
15 August 2028	8.333333
15 February 2029	8.333333
15 August 2029	8.333333
15 February 2030	8.333333
15 August 2030	8.333333
15 February 2031	8.333333
15 August 2031	8.333333
15 February 2032	8.333333
15 August 2032	8.333333
15 February 2033	8.333333
15 August 2033	8.333337
Total	100.000000

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by ADB by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the



denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by ADB under the Currency Hedge Transaction relating to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

**SCHEDULE 3****Allocation and Withdrawal of Loan Proceeds**General

1. The table attached to this Schedule sets forth the Categories of items of expenditures to be financed out of the proceeds of the Loan and the allocation of the Loan 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 Loan Account

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

Interest and Commitment Charges

3. The amount allocated to Category 2 is for financing interest and commitment charges on the Loan during the implementation period of the Project. ADB shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Borrower, the amounts required to meet payments, when due, of such interest and commitment charges.

Reallocation

4. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan 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 Loan allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

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

Condition for Withdrawals from Loan Account

6. Notwithstanding any other provision of this Loan Agreement, no withdrawals shall be made from the Loan Account under Category 1 (Time Deposits for eligible SME Loans) until the following are met:

- (a) an ESMS is established by CGFM acceptable to ADB and CGFM has appointed relevant qualified officers to implement the ESMS;
- (b) the Subsidiary Loan Agreement shall have been duly executed and delivered on behalf of, and shall have become legally binding upon the Borrower and CGFM; and
- (c) a template Time Deposit Agreement is in place acceptable to ADB.

TABLE

<b>ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS</b> (Supporting the Credit Guarantee System for Economic Diversification and Employment Project)			
<b>Number</b>	<b>Item/Category</b>	<b>Total Amount Allocated for ADB Financing (\$)</b>	<b>Percentage and Basis for Withdrawal from the Loan Account</b>
1	Time Deposits for Eligible SME Loans*	\$58,630,000	90% of total expenditure
2	Interest and Commitment Charges During Implementation	\$1,370,000	100% of total amount due
	Total	\$60,000,000	

\*Subject to condition for withdrawals in Paragraph 6 of this Schedule 3.

**SCHEDULE 4****Procurement of Goods and Works by Qualified SME Borrowers**General

1. The procurement of Goods and Works shall be subject to and governed by applicable provisions of the Procurement Guidelines.
2. All terms used in this Schedule and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines.

Procurement

3. The Borrower shall cause CGFM to cause PFIs to ensure that each Qualified SME Borrower undertakes procurement of Goods and Works with due attention to economy and efficiency and in accordance with established private sector or commercial practices, acceptable to ADB.
4. The Borrower shall cause CGFM to ensure that the procurement of Works and Goods shall meet ADB member country procurement eligibility restrictions. This requirement shall be deemed to be met so long as a Qualified SME Borrower will have acquired Goods and Works from ADB member countries, in an amount equal to or larger than the SME Loan for a Qualified SME Subproject.

Industrial or Intellectual Property Rights

5. (a) The Borrower shall cause GCFM to cause PFIs to ensure that all Goods and Works procured by the Qualified SME Borrower (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 Borrower shall cause CGFM to cause PFIs to ensure that all contracts entered into by the Qualified SME Borrower for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) hereinabove.

**SCHEDULE 5****Execution of Project; Financial Matters**Implementation Arrangements

1. The Borrower shall ensure and cause CGFM 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 Borrower and ADB. In the event of any discrepancy between the PAM and this Loan Agreement, the provisions of this Loan Agreement shall prevail.

Eligibility Criteria for CGFM

2. The Borrower shall ensure or cause CGFM to ensure that the following conditions are met at all times during the Project:

- (a) satisfactory annual results from an independent external audit of the financial condition of CGFM, as determined by ADB;
- (b) the ratio of the outstanding balance of subloans to which any guarantees have been issued by CGFM that are 90 days or more past due in proportion to the total outstanding balance of the subloans to which any guarantees have been issued shall not exceed 8%;
- (c) CGFM maintains appropriate financial soundness at all times as evidenced by adequate capital, asset quality, liquidity and profitability, and maintenance of financial ratios at levels acceptable to ADB including a current assets to current liabilities ratio of 1.2 times;
- (d) CGFM maintains adequate credit guarantee and risk management policies, operating systems and procedures;
- (e) CGFM maintains compliance with prudential regulations, including exposure limits, maximum leverage of credit guarantees issuance of no more than 20 times and an adequate credit risk loss covering 100% of expected claims;
- (f) CGFM maintains acceptable corporate and financial governance and management practices including, among other things, transparent financial and operational disclosure policies and practices;
- (g) CGFM maintains sound business objectives and strategy and/or plans;
- (h) CGFM maintains autonomy in guarantee issuance and pricing decisions and assesses guarantee requested by PFIs individually;
- (i) CGFM maintains composition of the board and credit guarantee committee consistent with best practice international standards;

- (j) CGFM shall only accept new capital if its use is unrestricted and shall only acquire external credit guarantee portfolios if the new net composite risk shall not materially impact the financial soundness of CGFM or impair its capacity to meet its financial covenants and conditions of the Subsidiary Loan Agreement; and
- (k) CGFM maintains adequate policies, systems and procedures to assess and monitor the economic, social, and environmental impact of subprojects in accordance with parameters established by ADB for the purposes of the Project.

#### Eligibility Criteria for PFIs

3. The Borrower shall ensure or cause CGFM to ensure that each PFI shall comply with the following eligibility criteria at selection:

- (a) be in satisfactory operation for at least the last 5 years as determined by ADB;
- (b) have at least 5 years of experience in SME or microcredit lending as determined by documentation submitted by the PFI;
- (c) demonstrate a track record of running a successful SME program as determined by ADB;
- (d) have corporate, financial and governance practices acceptable to ADB;
- (e) have adequate credit and risk management policies and operating systems acceptable to ADB;
- (f) have a satisfactory and transparent accounting, management information system and internal audit system as determined by ADB;
- (g) have satisfied ADB's integrity, anti-money laundering and counter-financing of terrorism due diligence requirements and put in place anti-money laundering and counter-financing of terrorism controls and measures to implement such controls, in each case acceptable to ADB;
- (h) have established ESMS acceptable to ADB and appointed a qualified staff to implement the ESMS for screening prospective Qualified SME Subprojects in accordance with the SPS and the requirements set forth in the PAM to the satisfaction of ADB; and
- (i) have obtained relevant approvals for newly created guarantee products from CGFM for SME Loans to be provided to Qualified SME Borrowers for Qualified SME Subprojects and signed the relevant master guarantee agreement, approved by ADB.

4. The Borrower shall ensure or cause CGFM to ensure that each PFI shall comply with the following eligibility criteria at all times (including at selection):
- (a) comply fully with capital adequacy ratios and all other prudential requirements mandated by the agency responsible for banking and financial supervision in Mongolia (currently the Bank of Mongolia), as evidenced by the most recent annual audited financial statements, interim financial statements, public reports or reports issued by the banking and financial supervision in Mongolia, provided that if the requirements set forth in this paragraph 4 imposes more stringent requirements, such more stringent requirements shall apply;
  - (b) have a ratio of non-performing loans (NPLs) less than 8% of the total loan portfolio (for the purposes of the foregoing, NPLs means loans overdue by 90 days or more), as evidenced by its most recent annual audited financial statement and interim financial statements (in case of quarterly reporting evidenced by interim financial statements, a certification must also be provided by a PFI to CGFM certifying compliance with this eligibility criteria);
  - (c) be profitable for its most recently completed fiscal year (for the purposes of the foregoing, profitability refers to operating profit after tax), as evidenced by the most recent annual audited financial statements; and
  - (d) have its financial accounts audited by an external auditor annually and the results are satisfactory as determined by ADB, as evidenced by the most recent annual audited financial statements.

Nevertheless, a PFI that does not meet the eligibility criteria provided in paragraph 3 (a), (b), (c), (d), (e) and/or (f) and paragraph 4 (a), (b), (c) and/or (d), may still participate if it agrees to implement measures to achieve full compliance with all of the eligibility criteria within 12 months of signing the relevant master guarantee agreement with CGFM. For the avoidance of doubt, if a PFI does not come into full compliance with all of the PFI eligibility criteria provided in paragraphs 3 and 4 above within 12 months of signing the relevant master guarantee agreement with CGFM, it shall not be permitted to participate under the Project and the Borrower shall cause CGFM to promptly notify ADB and exercise its rights under the relevant agreements in consultation with ADB.

#### Monitoring of Eligibility Criteria of PFIs

5. The Borrower shall cause CGFM to monitor each PFI's compliance with the eligibility criteria set out in paragraph 4 above and (i) for eligibility criteria provided in paragraph 4 (a) and (b), submit quarterly reports to ADB on the status of compliance and (ii) for eligibility criteria provided in paragraph 4 (c) and (d), submit annual reports to ADB on the status of compliance. Upon becoming aware of any non-compliance by any PFI of any of the eligibility criteria set out in paragraph 4 above, the Borrower shall cause CGFM to promptly notify ADB and exercise its rights under the relevant agreements in consultation with ADB.



### Reporting Requirements

6. The Borrower shall provide or cause CGFM to provide to ADB, on a quarterly basis, Statement of Utilization of Funds provided by the relevant PFIs to show that the Loan is used for the purposes of the Project, including a detailed list of SME Loans issued by each PFI with breakdown by Loan funds used and CGFM funds used and amount of guarantees received by each PFI for eligible subloans.

7. Throughout implementation of the Project, the Borrower shall ensure or cause CGFM to ensure that each PFI provides clear, timely and sufficient information on the performance of the SME Loans as requested by CGFM or ADB.

### Change of Control of PFIs

8. The Borrower shall cause CGFM to ensure that it shall be a termination event under each Time Deposit Agreement if any change in control (as such term shall be defined in the applicable Time Deposit Agreement) of the relevant PFI will, in CGFM's sole discretion, either (a) have a material adverse effect on such PFI's operations or financial performance, or (b) entail a change in such PFI's business strategy not conducive to achieving the objectives of this Project. The Borrower shall cause CGFM to promptly notify ADB of the occurrence of any change in control of such PFI and, if requested by ADB, CGFM shall promptly exercise its rights under the applicable Time Deposit Agreement in respect of such change in control.

### SME Loans

9. (a) The Borrower shall cause CGFM to ensure that:

- (i) each SME Loan (i) is used by a Qualified SME Borrower for a Qualified Subproject, (ii) is denominated in MNT, (iii) has a market-based interest rate, and (iv) at least partially guaranteed by a new guarantee product issued by CGFM;
- (ii) each PFI bears the unguaranteed credit risk associated with each SME Loan made by it to a Qualified SME Borrower; and
- (iii) each PFI shall independently determine the creditworthiness of each Qualified SME Borrower and the terms and conditions of the related SME Loan, subject to subparagraph 8(a) above.

(b) The Borrower shall cause CGFM to ensure that only up to 15% of the total gross amount provided to CGFM under the Subsidiary Loan Agreement shall be used for SME Loans with repayment period less than five years at any time.

### Eligibility Criteria for Qualified SME Borrower

10. The Borrower shall cause CGFM and PFIs to ensure that each Qualified SME Borrower:

- (a) is a small and/or medium-sized enterprise according to the definition stipulated in the Law on SMEs of Mongolia;

- (b) is not engaged in any prohibited investment activities listed in the attachment to this Schedule 5 and Schedule and the list of prohibited investment activities in Appendix 5 of the SPS, to the extent not duplicative or included in the list of prohibited investment activities list attached hereto;
- (c) is in compliance with the applicable laws and regulations of Mongolia; and
- (d) meets appropriate credit and other risk related criteria as determined and applied by the PFI and CGFM.

Qualified SME Subprojects (Screening, Categorization and Environmental and Social Assessment and Planning)

11. Before any proposed subproject is approved as a Qualified SME Subproject for financing, the Borrower shall cause CGFM to ensure that:

- (a) each PFI has appointed adequate number of qualified staff for the Project implementation particularly for financial management, reporting and evaluation;
- (b) the ESMS is used to screen and categorize the significance of potential environmental, indigenous peoples or involuntary settlement impacts associated with such subproject; and
- (c) an EMP is prepared for the proposed subprojects as required pursuant to the ESMS.

Eligibility Criteria for Qualified SME Subproject

12. The Borrower shall cause CGFM and each PFI to ensure that no Qualified SME Subproject, for which a PFI provides a SME Loan to a Qualified SME Borrower, shall:

- (a) involve any involuntary resettlement or indigenous peoples impacts, all within the meaning of SPS (no Qualified SME Subproject treated as category A or B for involuntary resettlement or indigenous peoples permitted);
- (b) involve any significant environmental impacts, all within the meaning of SPS (no Qualified SME Subproject treated as category A for environment permitted);
- (c) involve activities included in the list of prohibited investment activities attached this Schedule 5 and the list of prohibited investment activities in Appendix 5 of the SPS, to the extent not duplicative or included in the list of prohibited investment activities list attached hereto; and
- (d) involve activities that are not in compliance with the applicable laws and regulation of Mongolia.

13. Without limiting subparagraphs 11 (a) and (b) of this Schedule:
- (a) in the event that any subproject that has been assessed as a Qualified SME Subproject does have an impact of the type described in subparagraph 11(a) and (b) of this Schedule, the Borrower shall cause the applicable PFI to promptly notify ADB and ensure that all steps are taken to ensure that the Qualified SME Subproject complies with the applicable laws and regulations of the Borrower and with the SPS; and
  - (b) the Borrower shall cause CGFM to cause each PFI to ensure that in respect of any proposed Qualified SME Subproject that involves the acquisition or transfer of any interest in land, such acquisition or transfer is between willing parties and not under eminent domain.

#### Grievance Redress Mechanism for Qualified SME Subprojects

14. Prior to the first SME Loan guarantee, the Borrower shall cause CGFM to establish a grievance redress mechanism to deal with complaints about each Qualified SME Subproject's environmental and social concerns in accordance with the provisions of ESMS (the "GRM"), as further described in the PAM.

15. The Borrower shall cause CGFM to ensure that each PFI includes in the relevant SME Loan Agreement a requirement that each Qualified SME Borrower shall refer affected people's concerns, complaints and grievances about each Qualified SME Subproject's environmental and social concerns to the PFI or the public complaints unit under the GRM and implement any redress solution, as further described in the PAM.

#### Environment

16. The Borrower shall ensure or cause CGFM and PFIs to ensure that the preparation, design, construction, implementation, operation and decommissioning of each Qualified SME Subproject comply with (a) all applicable laws and regulations of Mongolia relating to environment, health and safety; (b) the ESMS; and (c) all measures and requirements set forth in the respective EMP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

#### Safeguards Monitoring Report

17. The Borrower shall cause CGFM to require each PFI to do the following:
- (a) submit semi-annual Safeguards Monitoring Reports to CGFM for compilation and timely submission by CGFM to the Borrower and annually to ADB;
  - (b) if any unanticipated environmental and/or social risks and impacts arise during any Qualified SME Subproject implementation, promptly inform the Borrower, CGFM and ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective plan; and

- (c) report to the Borrower, CGFM and ADB any actual or potential breach of compliance with the measures and requirements set forth in the EMP, promptly after becoming aware of the breach.

#### Labor Standards

18. The Borrower shall cause CGFM to cause each PFI to ensure that the core labor standards (as set out in the relevant conventions of the International Labor Organization) and the Borrower's applicable laws and regulations, including workplace occupational safety requirements, are complied with during implementation of the Qualified SME Subprojects.

#### Gender and Development

19. The Borrower shall cause CGFM and PFIs to ensure that the principles of gender equity aimed at increasing benefits and impacts on women in the Qualified SME Subproject areas consistent with ADB's Policy on Gender and Development (1998) are followed during implementation of the Qualified SME Subprojects, including (a) equal pay to men and women for work of equal value; (b) enabling working conditions for women workers; and (c) taking necessary actions to encourage women living in the Qualified SME Subproject areas to participate in the design and implementation of Qualified SME Subproject activities.

#### Governance and Anticorruption

20. The Borrower shall, and shall ensure that CGFM and each PFI shall (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, including any Qualified SME Subprojects; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

21. The Borrower shall, and shall ensure that CGFM and each PFI include anticorruption provisions acceptable to ADB in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the contractors, suppliers, consultants, and other service providers as they relate to the Project, including any Qualified SME Subprojects.

#### Combating Money Laundering and Financing of Terrorism

22. The Borrower shall ensure that CGFM and each PFI:
- (a) complies with applicable laws and regulations of the Borrower on combating money laundering and financing of terrorism and that Loan proceeds are not used, directly or indirectly, in money laundering or financing of terrorism;
  - (b) formulates and implements internal control procedures, including customer due diligence procedures, to prevent violation of subparagraph (a) hereinabove; and

- (c) promptly informs the Borrower and ADB if there is any violation or potential violation of subparagraph (a) hereinabove. In the event that ADB informs CGFM and/or a PFI of its concern that there has been such an alleged violation, CGFM and/or a PFI shall: (i) cooperate in good faith with ADB and its representatives so that ADB can determine whether such a violation has occurred; (ii) respond promptly and in reasonable detail to any query from ADB; and (iii) furnish documentary support for such response upon ADB's request.

#### Prohibited List of Investments

23. The Borrower shall cause CGFM and each PFI to ensure that no proceeds of the Loan are used to finance any activity included in the list of prohibited investment activities attached hereto and the list of prohibited investment activities in Appendix 5 of the SPS, to the extent not duplicative or included in the list of prohibited investment activities list attached hereto.

#### Restrictions on Distribution of Excess Funds by CGFM

24. The Borrower shall ensure or cause CGFM to ensure that that no distribution of excess operating revenues net of expenses or equity shall be made to any founder or member of CGFM unless:

- (a) the co-funding ratio between ADB and CGFM can be met for the remaining life of the Loan (which requires that the total Time Deposits shall be funded at an agreed ratio of 90% funded by the Loan and 10% funded by CGFM funds);
- (b) the level of non-performing loans ("NPLs") remains below 3% of the total loan guarantee portfolio (for the purposes of the foregoing, NPLs means loans overdue by 90 days or more);
- (c) the maximum leverage of credit guarantee issued by CGFM does not exceed 10x;
- (d) expected claims on credit guarantee issuance remains covered at 100%;
- (e) CGFM has surplus during the prior fiscal year and is anticipated to have surplus in the next fiscal year (surplus refers to operating revenue minus expenses and any tax); and
- (f) CGFM will remain in sound financial condition capable to meet the terms and conditions of the Subsidiary Loan Agreement.

#### Counterpart Support

25. The Borrower shall ensure that the necessary capital or funds are available at CGFM to meet regulatory requirements and the requirements of the Subsidiary Loan Agreement.

### PROHIBITED INVESTMENT ACTIVITIES LIST

- (a) production or activities involving harmful or exploitative forms of forced labor<sup>1</sup> or child labor;<sup>2</sup>
- (b) production of or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements or subject to international phase-outs or bans, such as (a) pharmaceuticals,<sup>3</sup> pesticides, and herbicides,<sup>4</sup> (b) ozone-depleting substances,<sup>5</sup> (c) polychlorinated biphenyls<sup>6</sup> and other hazardous chemicals,<sup>7</sup> (d) wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora,<sup>8</sup> and (e) transboundary trade in waste or waste products;<sup>9</sup>
- (c) production of or trade in weapons and munitions, including paramilitary materials;
- (d) production of or trade in alcoholic beverages, excluding beer and wine;<sup>10</sup>
- (e) production of or trade in tobacco;<sup>10</sup>
- (f) gambling, casinos, and equivalent enterprises;<sup>10</sup>
- (g) production of or trade in radioactive materials,<sup>11</sup> including nuclear reactors and components thereof;
- (h) production of, trade in, or use of unbonded asbestos fibers;<sup>12</sup>
- (i) commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests;
- (j) marine and coastal fishing practices, such as large-scale pelagic drift net fishing and fine mesh net fishing, harmful to vulnerable and protected species in large numbers and damaging to marine biodiversity and habitats;
- (k) real estate investment, if non-owner occupied, or property acquisition;

<sup>1</sup> Forced labor means all work or services not voluntarily performed, that is, extracted from individuals under threat of force or penalty.

<sup>2</sup> Child labor means the employment of children whose age is below the host country's statutory minimum age of employment or employment of children in contravention of International Labor Organization Convention No. 138 "Minimum Age Convention" ([www.ilo.org](http://www.ilo.org)).

<sup>3</sup> A list of pharmaceutical products subject to phase-outs or bans is available at <http://www.who.int>.

<sup>4</sup> A list of pesticides and herbicides subject to phase-outs or bans is available at <http://www.pic.int>.

<sup>5</sup> A list of the chemical compounds that react with and deplete stratospheric ozone resulting in the widely publicized ozone holes is listed in the Montreal Protocol, together with target reduction and phase-out dates. Information is available at <http://www.unep.org/ozone/montreal.shtml>.

<sup>6</sup> A group of highly toxic chemicals, polychlorinated biphenyls are likely to be found in oil-filled electrical transformers, capacitors, and switchgear dating from 1950 to 1985.

<sup>7</sup> A list of hazardous chemicals is available at <http://www.pic.int>.

<sup>8</sup> A list is available at <http://www.cites.org>.

<sup>9</sup> As defined by the Basel Convention; see <http://www.basel.int>.

<sup>10</sup> This does not apply to project sponsors who are not substantially involved in these activities. Not substantially involved means that the activity concerned is ancillary to a project sponsor's primary operations.

<sup>11</sup> This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any equipment for which ADB considers the radioactive source to be trivial and adequately shielded.

<sup>12</sup> This does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.

- (l) commercial real estate construction unless SME owner-occupied
- (m) heavy construction material-related sectors;
- (n) multi-family housing construction;
- (o) all mining, mineral processing and extraction activities;
- (p) businesses involved with oil or energy import;
- (q) businesses involved primarily with the import of luxury items;
- (r) SMEs that are subsidiaries of or controlled by large enterprises;
- (s) wastewater treatment activities; and
- (t) water supply activities.