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LOAN NUMBER 3086 -MON (SF)  
(Additional to Grant Number 0137-MON (SF))

LOAN AGREEMENT  
(Special Operations)

(Food and Nutrition Social Welfare Project – Additional Financing)

between

MONGOLIA

and

ASIAN DEVELOPMENT BANK

DATED 06.02.2014

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MON 42322

**LOAN AGREEMENT  
(Special Operations)**

LOAN AGREEMENT dated 06 February 2014 between MONGOLIA ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) by a grant agreement dated 17 December 2008 between the Borrower and ADB ("Grant Agreement"), ADB provided a grant (No. 0137-MON(SF)) from ADB's Special Funds resources in the amount of three million Dollars (\$3,000,000) for the purposes of the project described in Schedule 1 to the Grant Agreement ("Ongoing Project");

(B) the Borrower has applied to ADB for an additional loan for the purposes of providing additional financing for the expansion of the Ongoing Project through the project financing described in Schedule 1 to this Loan Agreement (the "Project"); and

(C) ADB has agreed to make a loan to the Borrower from ADB's Special Funds resources upon the terms and conditions set forth herein.

NOW THEREFORE the parties agree as follows:

**ARTICLE I**

**Loan Regulations; Definitions**

Section 1.01. All provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 ("Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein:

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) "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 Loan as described in paragraph 3 of Schedule 1 to this Loan Agreement;

(c) "GAP" or "Gender Action Plan" means the Gender Action Plan agreed under the Ongoing Project between the Borrower and ADB on 14 November 2008, as updated to reflect the Project;

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

(e) “GOSWS” means the General Office for Social Welfare Services, an attached agency of the MPDSP, or any successor thereto acceptable to ADB;

(f) “IA(s)” or “Implementing Agencies” means (i) GOSWS; and (ii) SIGO, for activities related to the Project;

(g) “IT” means information technology;

(h) “Loan Disbursement Handbook” means ADB’s Loan Disbursement Handbook (2012, as amended from time to time);

(i) “MPDSP” means the Ministry of Population Development and Social Protection of the Borrower;

(j) “PAM” means the project administration manual for the Project dated 23 October 2013 and agreed between the Borrower and ADB, as updated from time to time in accordance with the respective administrative procedures of the Borrower and ADB;

(k) “Procurement Guidelines” means ADB’s Procurement Guidelines (2013, as amended from time to time);

(l) “Procurement Plan” means the procurement plan for the Project dated 23 October 2013 and agreed between the Borrower and ADB, as updated from time to time in accordance with the Procurement Guidelines, the Consulting Guidelines, and other arrangements agreed with ADB;

(m) “Project Executing Agency” for the purposes of, and within the meaning of, the Loan Regulations means MPDSP or any successor thereto acceptable to ADB, with is responsible for the overall implementation and coordination of the Project;

(n) “SIGO” means the Social Insurance General Office, an attached agency of MPDSP, or any successor thereto acceptable to ADB; and

(o) “Works” means construction or civil works to be financed out of the proceeds of the Loan, 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. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to twelve million nine hundred sixty thousand Special Drawing Rights (SDR12,960,000).

Section 2.02. (a) The Borrower shall pay to ADB an interest charge at the rate of 2% per annum during the grace period and thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term "grace period" as used in subsection (a) 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 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 1 March and 1 September in each year.

Section 2.04. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.05. The currency of repayment of the principal amount of the Loan and the currency of payment of the interest charge for the purposes of Sections 4.03(a) and 4.04 of the Loan Regulations shall be the Dollar.

## **ARTICLE III**

### **Use of Proceeds of the Loan**

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan shall be allocated and withdrawn in accordance with the provisions of Schedule 3 to 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 procure, or cause to be procured, the items of expenditure to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04. Except as ADB may otherwise agree, the Borrower shall cause all items of expenditure financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Section 3.05. Withdrawals from the Loan 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 3.06. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 November 2017 or such other date as may from time to time be agreed between the Borrower and ADB.

## **ARTICLE IV**

### **Particular Covenants**

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. (a) The Borrower shall (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 Loan proceeds and compliance with the financial covenants of this Loan Agreement as well as on the use of the procedures for imprest fund 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 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. ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within thirty (30) days of the date of their receipt by posting them on ADB's website.

(b) In addition to the audited financial statements for the Project referred to in subsection (a) hereinabove, the Borrower shall cause SIGO to (i) provide its financial statements prepared in accordance with national accrual-based financing reporting standards acceptable to ADB, (ii) have its financial statements audited annually by independent auditors whose qualifications, experience and terms of reference as 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 one (1) month after approval of the relevant authority, copies of such audited financial statements in English and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(c) The Borrower shall enable ADB, upon ADB's request, to discuss the financial statements for the Project and the Borrower's, including SIGO's financial affairs where they relate to the Project with the auditors appointed pursuant to subsection (a)(iii) and (b)(ii) 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 4.03. The Borrower shall enable ADB's representatives to inspect the Project, the Goods and Works and any relevant records and documents.

## **ARTICLE V**

### **Suspension; Acceleration of Maturity**

Section 5.01. The following is specified as an additional event for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 8.01(m) of the Loan Regulations: the Grant Agreement shall have become liable for suspension or cancellation.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 8.07(d) of the Loan Regulations: the event specified in Section 5.01 of this Loan Agreement shall have occurred.

## **ARTICLE VI**

### **Effectiveness**

Section 6.01. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of this Loan Agreement for the purposes of Section 9.03 of the Loan Regulations.

**ARTICLE VII**

**Miscellaneous**

Section 7.01. The Minister for Economic Development of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

For the Borrower

Ministry of Economic Development  
Government Building-2  
United Nations Street 5/2  
Ulaanbaatar-15160  
Mongolia

Facsimile Number:

(976) 11-327914

For ADB

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

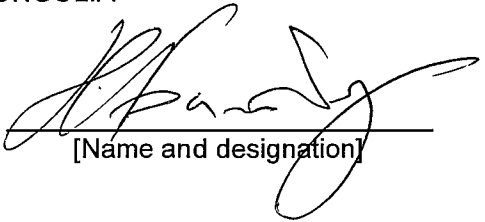
Facsimile Numbers:

(632) 636-2444

(632) 636-2407.

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   
[Name and designation]

ASIAN DEVELOPMENT BANK

By   
[Name and designation]

R. Schellhammer,  
Country Director



## SCHEDULE 1

### Description of the Project

1. The objective of the Project is more efficient and transparent delivery of social welfare and insurance services through strengthened policy, systems and information technology.

2. The Project shall comprise the following Outputs and activities thereunder:

Output 1: IT processes and systems are upgraded. Activities to support Output 1 include:

- (i) improving IT systems to support international accounting standards for SIGO;
- (ii) automating periodic reporting and reducing manual processing;
- (iii) enhancing transparency of SIGO and GOSWS operations to ensure friendly and web-based access of social welfare and insurance data based on a secure and electronic access policy;
- (iv) establishing data analytics and a business intelligence system;
- (v) setting up information security and disaster recovery infrastructure;
- (vi) building capacity for staff of SIGO, GOSWS, and the MPDSP at all levels; and
- (vii) upgrading IT equipment at central, *aimag*, district, and *soum* level.

Output 2: Social welfare is reformed and social protection strengthened. Activities to support Output 2 include:

- (i) rationalizing the social welfare system (consolidate benefits, improve the targeting of social welfare benefits, balance cash transfer and services, and link social welfare beneficiaries to employment services);
- (ii) updating the social protection strategy;;
- (iii) building capacity for staff of SIGO, GOSWS, and the MPDSP at all levels;
- (iv) updating the database of poor households identified through proxy means testing and running the grievance and redress mechanism;
- (v) improving the investment opportunities and the financial due diligence of the social insurance funds; and
- (vi) making recommendations on gender equality in social protection and on better linking social protection with labor market policies.

3. The Project includes the provision of Consulting Services for (i) IT systems upgrade; (ii) compliance with international financial reporting standards and international public sector accounting standards; (iii) analysis of investment strategies for social insurance funds; (iv) aligning labor market trends with social protection system, (v) poverty database updating; and (vi) training, communication and public awareness raising.

4. The Project is expected to be completed by 31 May 2017.

**SCHEDULE 2****Amortization Schedule****(Food and Nutrition Social Welfare Project – Additional Financing)**

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
1 March 2019	324,000
1 September 2019	324,000
1 March 2020	324,000
1 September 2020	324,000
1 March 2021	324,000
1 September 2021	324,000
1 March 2022	324,000
1 September 2022	324,000
1 March 2023	324,000
1 September 2023	324,000
1 March 2024	324,000
1 September 2024	324,000
1 March 2025	324,000
1 September 2025	324,000
1 March 2026	324,000
1 September 2026	324,000
1 March 2027	324,000
1 September 2027	324,000
1 March 2028	324,000
1 September 2028	324,000
1 March 2029	324,000
1 September 2029	324,000
1 March 2030	324,000
1 September 2030	324,000
1 March 2031	324,000
1 September 2031	324,000
1 March 2032	324,000
1 September 2032	324,000
1 March 2033	324,000
1 September 2033	324,000
1 March 2034	324,000
1 September 2034	324,000
1 March 2035	324,000
1 September 2035	324,000
1 March 2036	324,000
1 September 2036	324,000

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
1 March 2037	324,000
1 September 2037	324,000
1 March 2038	324,000
1 September 2038	324,000
<b>TOTAL</b>	<b>12,960,000</b>

\* The arrangements for payment are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

## SCHEDULE 3

### Allocation and Withdrawal of Loan 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 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 the withdrawal percentage for each item of expenditure set forth in the Table.

#### Reallocation

3. 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.

#### Imprest Account

4. Except as ADB may otherwise agree, immediately after the Effective Date, the Borrower shall establish an imprest account at a commercial bank acceptable to ADB. The imprest account shall be established, managed, replenished and liquidated in accordance with the Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB. The imprest account shall only be used for the purposes of the Project. The currency of the imprest account shall be the Dollar. The maximum ceiling for the imprest account shall not exceed the equivalent of ten percent (10%) of the Loan amount, unless otherwise agreed between the Borrower and ADB.

#### Disbursement Procedures

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

TABLE

<b>ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Food and Nutrition Social Welfare Project – Additional Financing)</b>				
<b>Number</b>	<b>Item</b>	<b>Total Amount Allocated for ADB Financing (SDR)</b>		<b>Basis for Withdrawal from the Loan Account</b>
		<b>Category</b>	<b>Subcategory</b>	
1	Consultants	489,000		
1A	International		286,000	100% of total expenditure claimed
1B	National		203,000	100% of total expenditure claimed
2	Equipment	5,810,000		100% of total expenditure claimed
3	Design and implementation of IT solutions	2,054,000		100% of total expenditure claimed
4	Training	311,000		100% of total expenditure claimed
5	Database construction and maintenance	2,019,000		100% of total expenditure claimed
6	Public communication support	246,000		100% of total expenditure claimed
7	Workshops and other participatory activities	312,000		100% of total expenditure claimed
8	Project management Total	406,000		
9	Contingency	1,313,000		
	<b>Total</b>	12,960,000		

## **SCHEDULE 4**

### **Procurement of Goods, Works and Consulting Services**

#### General

1. The procurement of Goods, Works 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 Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

#### Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:
  - (a) International Competitive Bidding;
  - (b) National Competitive Bidding; and
  - (c) Shopping.
4. The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower 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.

#### Domestic Preference

5. The Borrower may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods.

#### National Competitive Bidding

6. The Borrower and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Borrower's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Borrower and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after approval of such change by the Borrower and ADB.

#### Consulting Services

7. Except as ADB may otherwise agree, the Borrower shall apply (i) quality- and cost-based selection, (ii) consultants' qualifications selection, (iii) fixed budget selection, and (iv) individual consultant selection, for selecting and engaging Consulting Services.

Industrial or Intellectual Property Rights

8. (a) The Borrower shall ensure that all Goods and Works 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 Borrower shall ensure that all contracts 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) of this paragraph.

9. The Borrower 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

10. Contracts procured under international competitive bidding procedures and contracts for Consulting Services shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.

## SCHEDULE 5

### Execution of Project; Financial Matters

#### Implementation Arrangements

1. The Borrower, through MPDSP, GOSWS and SIGO, shall 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.
2. The Borrower shall ensure that the analytical groups under MPDSP shall be strengthened by 2016 and analytical functions under SIGO and GOSWS will be harmonized by ensuring that the analytical functions will be brought under the MPDSP.

#### Counterpart Support

3. The Borrower shall ensure that counterpart financing necessary for the Project is provided on a timely basis, and that MPDSP, SIGO and GOSWS make available all funds and resources necessary to adequately operate and maintain SIGO and GOSWS IT systems (upgrading and enhancement of IT system), and recruit staff for SIGO to operate and maintain the IT systems during project implementation and after Project completion. The Borrower shall further ensure that additional counterpart funding is available to cover any shortfalls that may occur during Project implementation.

#### Gender and Development

4. The Borrower shall through MPDSP ensure that the Gender Action Plan, updated for the Project is fully complied with, including the development of (a) a gender strategy as part of the updated social protection strategy and (b) updated social welfare benefits database to be sex-disaggregated to allow gender equality tracking.

#### Governance and Anticorruption

5. The Borrower shall ensure that MPDSP, SIGO and GOSWS (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.
6. The Borrower, through MPDSP, SICO and GOSWS, shall ensure that during the Project implementation, (a) 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; (b) periodic inspection of contractors is undertaken to ensure that the fund withdrawal and settlement procedures are followed; and (c) a Project website is established within twelve (12) months of the Effective Date, accessible by the general public, to disclose information



about various matters concerning the Project, including general Project information, procurement, Project progress, and contact details in English and Mongolian languages. The website shall also provide a link to ADB's Integrity Unit (<http://www.adb.org/Integrity/complaint.asp>) for reporting to ADB any grievances or allegations of corrupt practices arising out of the Project and Project activities. With regard to procurement, the website shall include information (which may include a link to the Borrower's e-procurement website) on the list of participating bidders, name of the winning bidder, basic details on bidding procedures adopted, amount of contract awarded and the list of Goods, Works and Consulting Services procured.

#### Grievance Redress Mechanism

7. The Borrower through MPDSP shall ensure that within sixty (60) days of the Effective Date, a complaint and problem management task force, acceptable to ADB, is established and functioning effectively to (a) review and document eligible complaints of Project stakeholders, (b) proactively address any complaints, (c) provide the complainants with notice of the chosen mechanism/action and (d) prepare periodic reports to summarize the number of complaints received and resolved and final outcomes of the grievances and chosen actions and make these reports available to ADB upon request. Eligible complaints include those related to the Project, any of the service providers, any person responsible for carrying out the Project, complaints on the misuse of funds, and other irregularities and grievances due to any gender or safeguard issues.

#### Safeguards

8. The Borrower shall ensure that the Project does not have any environmental, indigenous peoples or involuntary resettlement impacts, all within the meaning of ADB's Safeguard Policy Statement (2009) (Safeguard Policy Statement). In the event that the Project does have any such impact, the Borrower shall take all steps required to ensure that the Project complies with the applicable laws and regulations of the Borrower and with the ADB's Safeguard Policy Statement.

#### Grant Agreement and Ongoing Project

9. The Grant Agreement, including without limitation the covenants set out in Schedule 4 thereto, shall continue in full force and effect except as expressly amended hereby.