



**FINANCING AGREEMENT  
(Special Operations)**

FINANCING AGREEMENT dated 06 February 2007 between MONGOLIA and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

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

(B) Mongolia has also applied to the Government of Korea for a grant equivalent to five hundred thousand dollars (\$500,000) from the Republic of Korea e-Asia and Knowledge Partnership Fund (hereinafter referred to as the Grant) administered by ADB to finance, on a parallel basis, Component 3 of the Project as described in Schedule 1 to this Financing Agreement; and

(C) ADB has agreed to provide financing by making a loan to Mongolia from ADB's Special Funds resources, upon the terms and conditions hereinafter set forth;

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 (the "Loan Regulations"), are hereby made applicable to this Financing Agreement with the same force and effect as if they were fully set forth herein.

(a) the term "Loan Agreement", wherever it appears in the Loan Regulations, shall be substituted by the term "Financing Agreement"; and

(b) the term "Borrower", wherever it appears in the Loan Regulations, shall be substituted by the term "Mongolia".

Section 1.02. The definitions set forth in the Loan Regulations are applicable to this Financing Agreement unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) "Component" means each part of the Project as described in Schedule 1 to this Financing Agreement;

(b) "Consulting Guidelines" means ADB's "Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers" dated April 2006, as amended from time to time;

(c) “GAMAS” means Mongolia Customs Automated Data Processing System;

(d) “Grant Account” means the account opened by ADB on its books in the name of Mongolia for the purposes of the Project and to which five hundred thousand dollars (\$500,000) from the e-Asia Knowledge and Partnership Fund is credited;

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

(f) “ICT” means information and communications technology;

(g) “MCGA” means Mongolian Customs General Administration, and includes any legal successor thereto;

(h) “MOF” means the Ministry of Finance of Mongolia;

(i) “Procurement Guidelines” means ADB’s “Procurement Guidelines” dated April 2006, as amended from time to time;

(j) “Procurement Plan” means the procurement plan for the Project dated 22 November 2006 and agreed between Mongolia and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

(k) “Project Director” means the Director General of MCGA responsible for the Project management as provided in paragraph 3 of Schedule 5 to this Financing Agreement;

(l) “Project Executing Agency” for the purposes of, and within the meaning of, the Loan Regulations, means MOF, or any legal successor thereto acceptable to ADB, which is responsible for the carrying out of the Project;

(m) “Project facilities” means the facilities, equipment, and materials provided under this Project;

(n) “Project Implementing Agency” or “IA” means MCGA;

(o) “PMO” means the Project Management Office as referred to in paragraph 4 of Schedule 5 to this Financing Agreement;

(p) “PSC” means Project Steering Committee as referred to in paragraph 2 of Schedule 5 to this Financing Agreement;

(q) “Republic of Korea e-Asia and Knowledge Partnership Fund” refers to the fund established under the Agreement between the Government of Korea and ADB, dated 30 June 2006;

(r) "RRP" means the Report and Recommendation of the President to the Board of Directors of ADB for the Project; and

(s) "Works" means construction or civil works to be financed out of the proceeds of the Loan, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding consulting services.

## ARTICLE II

### The Loan and the Grant

Section 2.01. ADB agrees to provide to Mongolia on terms and conditions set forth in this Financing Agreement:

(a) a loan from ADB's Special Funds resources in various currencies equivalent to three million three hundred seventy five thousand Special Drawing Rights (SDR 3,375,000) (the "Loan"); and

(b) a grant in the amount of five hundred thousand dollars ( \$500,000) (the "Grant") from the Republic of Korea e-Asia and Knowledge Partnership Fund.

Section 2.02. (a) The Loan proceeds shall be withdrawn from the Loan Account in accordance with the provisions of attachment 1 of Schedule 3 to this Agreement for purposes of financing the Project expenditures under Components 1 and 2 of the Project ; and

(b) The Grant proceeds shall be withdrawn from the Grant Account in accordance with the provisions of attachment 2 of Schedule 3 to this Agreement for purposes of financing the Project expenditures under Component 3 of the Project.

Section 2.03 (a) Mongolia shall pay to ADB an interest charge at the rate of one percent (1%) per annum during the grace period, and one and one-half percent (1.5%) per annum 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 paragraph (a) of this Section means the period prior to payment of the first principal amount of the Loan on the payment date in accordance with the amortization schedule set forth in Schedule 2 to this Financing Agreement.

Section 2.04. The interest charge and any other charge on the Loan shall be payable semiannually on 15 January and 15 July in each year.

Section 2.05. Mongolia 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 Financing Agreement.

Section 2.06. The currency of repayment of the principal 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 Dollar.

### **ARTICLE III**

#### **Use of Proceeds of the Loan and the Grant**

Section 3.01. Mongolia shall cause the proceeds of the Loan and the Grant to be applied to the financing of expenditures on the Project in accordance with the provisions of this Financing Agreement.

Section 3.02. The Goods, Works, consulting services and other items of expenditure to be financed out of the proceeds of the Loan and the Grant and the respective allocation of amounts of the Loan and the Grant among different categories of such Goods, Works, consulting services and other items of expenditure shall be in accordance with the provisions of Schedule 3 to this Financing Agreement, as such Schedule may be amended from time to time by agreement between Mongolia and ADB.

Section 3.03. Except as ADB may otherwise agree, all Goods, Works, and consulting services to be financed out of the proceeds of the Loan and Grant shall be procured in accordance with the provisions of Schedule 4 to this Financing Agreement.

Section 3.04. Withdrawals from the Loan Account and Grant Account in respect of Goods, Works, 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, Works, and consulting services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The closing date for withdrawals from the Loan Account for the purposes of Section 8.02 of the Loan Regulations and the closing date for withdrawals from the Grant account shall be 31 August 2010 or such other date as may from time to time be agreed between Mongolia and ADB.

## ARTICLE IV

### Particular Covenants

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

Section 4.02. (a) Mongolia shall (i) maintain, or cause to be maintained, separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than 6 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan and Grant proceeds and compliance with the financial covenants of this Financing Agreement as well as on the use of the procedures for imprest accounts and statement of expenditures), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) Mongolia shall enable ADB, upon ADB's request, to discuss Mongolia's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by Mongolia pursuant to Section 4.02(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of Mongolia unless Mongolia shall otherwise agree.

Section 4.03. Mongolia shall enable ADB's representatives to inspect the Project, the Goods and Works financed out of the proceeds of the Loan and the Grant, and any relevant records and documents.

## ARTICLE V

### Effectiveness

Section 5.01. A date ninety (90) days after the date of this Financing Agreement is specified for the effectiveness of the Financing Agreement for the purposes of Section 9.04 of the Loan Regulations.

**ARTICLE VI**

**Miscellaneous**

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

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

For Mongolia

Ministry of Finance  
Government Building – 2  
Negdsen Undestnii gudamj – 5/1  
Ulaanbaatar – 210646  
Mongolia

Facsimile Number:

(976) 11-262272

For ADB

Asian Development Bank  
P.O. Box 789  
0980 Manila, Philippines

Cable Address:

ASIANBANK  
MANILA

Telex Numbers:

29066 ADB PH (RCA)  
42205 ADB PM (ITT)  
63587 ADB PN (ETPI)

Facsimile Numbers:

(632) 636-2444  
(632) 636-2494

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

MONGOLIA

By  \_\_\_\_\_  
N. BAYARTSAIKHAN  
Finance Minister of Mongolia

ASIAN DEVELOPMENT BANK

By  6.2.07  
ADRIAN RUTHENBERG  
Country Director  
Mongolia Resident Mission

## SCHEDULE 1

### Description of the Project

1. The objectives of the Project are to (i) increase the volume of trade; and (ii) facilitate the smooth flow of external trade of Mongolia by improving efficiency, transparency and sustainability in customs services and administration.

2. The project consists of three Components:

#### Component 1: Migrating and Upgrading of GAMAS

- (i) migrating and upgrading GAMAS for providing an electronic processing environment supporting internet-enabled and window-based systems;
- (ii) interfacing GAMAS with the planned national SEW for e-government; and
- (iii) improving the communications and network infrastructure.

#### Component 2: Improving Customs Infrastructure

- (i) improving customs border facilities and providing surveillance and inspection equipment; and
- (ii) providing equipment to enhance the analytical capabilities of customs laboratories.

#### Component 3: Institutional Strengthening

- (i) implementing and enhancing business processes;
- (ii) developing the human resources, including developing a training plan for IT activities;
- (iii) promoting interagency coordination;
- (iv) supporting public-private sector partnership; and
- (v) carrying out quality and compatibility testing of software used by the trading community.

3. The Project is expected to be completed by 28 February 2010.

**SCHEDULE 2****Amortization Schedule  
(Customs Modernization Project)**

<b>Period</b>	<b>Date Payment Due</b>	<b>Payment of Principal (Expressed in SDR)*</b>
1	15 January 2015	70,313.00
2	15 July 2015	70,313.00
3	15 January 2016	70,313.00
4	15 July 2016	70,313.00
5	15 January 2017	70,313.00
6	15 July 2017	70,313.00
7	15 January 2018	70,313.00
8	15 July 2018	70,313.00
9	15 January 2019	70,313.00
10	15 July 2019	70,313.00
11	15 January 2020	70,313.00
12	15 July 2020	70,313.00
13	15 January 2021	70,313.00
14	15 July 2021	70,313.00
15	15 January 2022	70,313.00
16	15 July 2022	70,313.00
17	15 January 2023	70,313.00
18	15 July 2023	70,313.00
19	15 January 2024	70,313.00
20	15 July 2024	70,313.00
21	15 January 2025	70,313.00
22	15 July 2025	70,313.00
23	15 January 2026	70,313.00
24	15 July 2026	70,313.00
25	15 January 2027	70,313.00
26	15 July 2027	70,313.00
27	15 January 2028	70,313.00
28	15 July 2028	70,313.00
29	15 January 2029	70,313.00
30	15 July 2029	70,313.00
31	15 January 2030	70,313.00
32	15 July 2030	70,313.00

---

\* The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

<b>Period</b>	<b>Date Payment Due</b>	<b>Payment of Principal (Expressed in SDR)*</b>
33	15 January 2031	70,313.00
34	15 July 2031	70,313.00
35	15 January 2032	70,313.00
36	15 July 2032	70,313.00
37	15 January 2033	70,313.00
38	15 July 2033	70,313.00
39	15 January 2034	70,313.00
40	15 July 2034	70,313.00
41	15 January 2035	70,313.00
42	15 July 2035	70,313.00
43	15 January 2036	70,313.00
44	15 July 2036	70,313.00
45	15 January 2037	70,313.00
46	15 July 2037	70,313.00
47	15 January 2038	70,313.00
48	15 July 2038	70,289.00
		<hr/>
	<b>TOTAL</b>	<b>3,375,000.00</b>
		<hr/> <hr/>

---

\* The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

### SCHEDULE 3

#### Allocation and Withdrawal of Loan Proceeds

##### a. Loan proceeds

###### General

1. The table in attachment 1 to this Schedule sets forth the Categories of Goods, Works, consulting services and other items to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table and reference to "Subcategory" or "Subcategories" in this Schedule is to a Subcategory or Subcategories of a Category.)

###### Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories and Subcategories listed in the Table shall be financed out of the proceeds of the Loan on the basis of the percentages set forth in the Table.

###### Interest Charge

3. The amount allocated to Category 4 is for financing the interest charge on the Loan during the implementation period of the Project.

###### 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 Mongolia, (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 then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to Mongolia, reallocate such excess amount to any other Category.

###### Disbursement Procedures

5. Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the Loan proceeds shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2001 (ADB's Loan Disbursement Handbook), as amended from time to time.

Imprest Account; Statement of Expenditures

6. (a) Except as ADB may otherwise agree, Mongolia shall establish immediately after the Effective Date, an imprest account at a commercial bank acceptable to ADB. The imprest account shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between Mongolia and ADB. The currency of the imprest account shall be Dollar. The initial amount to be deposited into the imprest account shall not exceed the lower of (i) the estimated expenditure for the first six months of Project implementation, or (ii) the equivalent of ten (10) percent of the Loan amount.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures and to replenish the imprest account in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between Mongolia and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$ 50,000.

**b. Grant proceeds**

7. The table in attachment 2 to this Schedule sets forth the Categories of Goods and consulting services to be financed out of the Grant and the allocations of the Grant to each such Category and Subcategory. Procedures for reallocation of Grant proceeds, between different Categories and Subcategories of this table shall be the same as those used for Loan proceeds mentioned in paragraph 4 of this Schedule 3. (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table and reference to "Subcategory" or "Subcategories" in this Schedule is to a Subcategory or Subcategories of a Category.)

8. In addition to the Loan imprest account mentioned in paragraph 6 of this Schedule 3, a Grant imprest account shall be established at a commercial bank acceptable to ADB, which shall be established, managed, replenished and liquidated in the same manner as the Loan imprest account.

TABLE

<b>ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Mongolian Customs Modernization Project)</b>				
<b>CATEGORY</b>				<b>ADB FINANCING</b>
Number	Item	Amount Allocated SDR		Percentage and Basis for Withdrawal from the Loan Account
		Category	Subcategory	
1	Equipment and Furniture	1,921,000		100 percent of total expenditure*
1A	ICT Hardware		275,000	100 percent of total expenditure*
1B	ICT Network Infrastructure		779,000	100 percent of total expenditure*
1C	Workstation and PC		188,000	100 percent of total expenditure*
1D	Surveillance and Inspection Equipment		378,000	100 percent of total expenditure*
1E	Laboratory & Analytical Device		293,000	100 percent of total expenditure*
1F	PMO Equipment & Furniture		8,000	100 percent of total expenditure*
2	Software Development	912,000		100 percent of total expenditure*
2A	ICT Software		495,000	100 percent of total expenditure*
2B	Application Development		417,000	100 percent of total expenditure*
3	Project Management Office (PMO)	134,000		100 percent of total expenditure*
4	Interest charges	40,000		100 percent of total expenditure
5	Unallocated/contingencies	368,000		
	<b>Total</b>	<b>3,375,000</b>		

\* Exclusive of taxes and duties.

TABLE

<b>ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS (Mongolian Customs Modernization Project)</b>				
<b>CATEGORY</b>				<b>GRANT FINANCING ADMINISTERED BY ADB</b>
Number	Item	Amount Allocated \$		Percentage and Basis for Withdrawal from the Grant Account
		Category	Subcategory	
1	Consulting Services	174,600		100 percent of total expenditure*
2	Capacity Building, Consultation Meeting, Project Management	275,400		100 percent of total expenditure*
2A	Training		130,000	100 percent of total expenditure*
2B	Workshop, forums, and consultation meetings		80,000	100 percent of total expenditure*
2C	Survey and studies		40,000	100 percent of total expenditure*
2D	Materials, manuals, grant administration and support costs		25,400	100 percent of total expenditure*
3	Unallocated/contingencies	50,000		
	<b>Total</b>	<b>500,000</b>		

\* Exclusive of taxes and duties.

## SCHEDULE 4

### Provisions on Procurement and Consulting Services

#### A. General

1. All Goods and Works, and consulting services, to be financed out of the proceeds of the Loan and Grant shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used and not otherwise defined in this Financing Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

#### B. Procurement for 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:

International Competitive Bidding
National Competitive Bidding
Shopping

The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. Mongolia 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.

4. Domestic Preference. Mongolia 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 and paragraphs 2.55(b) and 2.56 of the Procurement Guidelines for domestic Works.
5. National Competitive Bidding. No National Competitive Bidding procurement may be undertaken unless ADB and Mongolia have agreed in writing to any necessary modifications or clarifications to Mongolia's National Competitive Bidding procedures for purposed of this Project to ensure consistency with ADB's Procurement Guidelines. Any such modifications or clarifications shall be subsequently reflected in the Procurement Plan and are hereby incorporated by reference to this Financing Agreement.

#### C. Selection of Consulting Services

6. Mongolia shall apply the following methods for selecting and engaging the specified consulting services, in accordance with, among other things, the procedures set forth in the Procurement Plan:

Consultants' Qualifications Selection
Least Cost Selection for Component 3

**D. Individual Consultants**

7. Mongolia shall recruit the individual consultants for the Component 3 in accordance with ADB's procedures for recruiting individual consultants.

**E. Industrial or Intellectual Property Rights**

8. (a) Mongolia 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) Mongolia 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. Mongolia 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.

**F. ADB's Review of Procurement Decisions**

10. All contracts procured under international competitive bidding procedures and contracts for consulting services shall be subject to prior review by ADB, unless otherwise agreed between Mongolia and ADB and set forth in the Procurement Plan.

## SCHEDULE 5

### Execution of Project and Operation of Project Facilities; Financial Matters

#### Project Executing and Implementation Agencies

1. MOF shall be the Project Executing Agency and as such shall be responsible for (i) the execution and coordination of the Project including endorsing disbursement applications under the Project; and (ii) overall management and monitoring of the Project. MCGA shall be the Project IA responsible for the timely and satisfactory implementation of the Project.

#### Project Steering Committee

2. Within one month of the Effective Date, a PSC shall be established to oversee the Project and coordinate issues related to Project implementation. The PSC, chaired by Vice Minister, MOF shall comprise representatives from MOF, General Department of National Taxation, MCGA, Ministry of Industry and Trade, Information Communications Technology Authority, State Specialized Inspection Agency, Mongolia Agency for Standardization and Metrology and Mongolian National Chamber of Commerce and Industry. The PSC shall meet whenever necessary but not less than once every six months, to provide guidance on the future direction of the Project. ADB shall attend the PSC meeting as observer.

#### Project Director

3. The Director General of MCGA shall be designated as the Project Director and shall represent the IA for the purpose of this Project. The Project Director shall have the overall responsibility for Project management. The Project Director shall appoint a senior staff from MCGA as his alternate.

#### Project Management Office

4. Within one month of the Effective Date, MCGA shall establish the Project Management Office (PMO) for the day-to-day implementation of the Project. The PMO shall be headed by a qualified Director selected on a competitive basis. Under the supervision of the Director, the PMO shall (i) coordinate the activities under the Project; (ii) directly be responsible for overall Project quality, monitoring and supervision; and (iii) report to the Project Director. The PMO Director shall be assisted by a group of qualified technical and administrative specialists including an ICT/procurement specialist and a finance/administrative officer. Such staff shall be selected on a competitive basis. The PMO shall be supported by consultants, interpreters and contractual staff as needed. Mongolia shall ensure that the PMO remains adequately staffed throughout the Project implementation.

Staffing

5. Mongolia shall ensure that the information technology division under MCGA shall be supported by adequate technical staff dealing with customs automation systems throughout the Project implementation.

Training Plan

6. Mongolia shall ensure that the IA implements the training plan under Component 3 of this Project on a timely manner.

Office Space

7. Without limiting the generality of Section 6.06 of the Loan Regulations, Mongolia shall provide adequate office space, including for consultants, throughout the implementation of the Project.

Counterpart Funding

8. Without limiting the generality of Section 6.06 of the Loan Regulations, Mongolia shall ensure that adequate counterpart funds are made available to the Project when and in the amounts required to enable Project agencies to discharge their responsibilities under the Project and to cover any shortfall of fund for the completion of the Project.

Operation and Maintenance

9. Mongolia shall ensure that (i) necessary budget allocations shall be provided to meet the recurrent costs under the Project for the operation and maintenance of the Project facilities both during Project implementation and after Project completion; and (ii) that a time-bound maintenance plan with adequate budget allocation is prepared on a regular basis.

Labor Law

10. Mongolia shall ensure compliance with all applicable labor laws, including the prohibition of child labor, and equal pay for men and women for work of equal value for activities under this Project. Compliance with these provisions shall be strictly monitored during implementation.

Resettlement

11. Mongolia shall ensure that any land which might be selected for the upgrading of customs physical infrastructure under this Project shall not cause any involuntary land acquisition, resettlement or limit on access to land as defined in ADB's *Policy on Involuntary Resettlement* (1995).

Environment Law

12. Mongolia shall ensure that all activities at the customs houses, particularly handling, use, storage, and disposal of toxic and hazardous substances, and disposal of other substances and wastes be conducted in compliance with Mongolia applicable laws and regulations and *ADB's Environment Policy* (2002).

Customs Law

13. Mongolia shall keep ADB updated on the adoption of the new Customs Law.

Anti-corruption

14. Consistent with ADB's and with Mongolia's commitment to good governance, accountability and transparency, Mongolia shall ensure and shall cause the IA to ensure that the Project funds are utilized effectively and efficiently to implement the Project and to achieve the Project objectives. Mongolia shall cause the IA to (a) undertake necessary measures to create and sustain a corruption-free environment; (b) ensure that Mongolia's Anticorruption Law and *ADB's Anticorruption Policy*, 1998, as amended to date, are strictly enforced and are being complied with during Project implementation, and that relevant provisions of *ADB's Anticorruption Policy*, 1998, as amended to date, are included in all bidding documents for the Project; (c) facilitate in ADB's exercise of its right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the Project; (d) conduct periodic inspections on the Project contractor's activities related to fund withdrawals and settlements; and (e) ensure that all contracts financed by ADB in connection with the Project include provisions specifying the right of ADB to audit and examine the records and accounts of the IA and all contractors, suppliers, consultants and other service providers as they relate to the Project. Mongolia shall cooperate with any audit and investigation and extend necessary assistance, including access to all relevant books and records, as well as engagement of independent auditors and experts that may be needed for satisfactory completion of such audits and investigations. All external costs related to the audits and investigations shall be funded from the Loan.

Project Review

15. Mongolia and ADB will jointly review the Project at least twice during the first year of Project implementation to assess progress, identify constraints and agree on strategies for resolving constraints. A comprehensive mid-term review (MTR) will be undertaken one and a half year after the commencement of Project implementation which shall include a detailed evaluation of the scope of the Project, operation and maintenance costs, implementation arrangements and achievements under the Project. The results of the mid-term review shall be discussed by Mongolia and ADB and if required, appropriate corrective measures shall be formulated to ensure successful Project implementation and achievement of the Project objectives by the Loan and Grant closing date. Without limiting the generality of Section 6.04 (c) of the Loan Regulations, within three months of physical completion of the Project, the PMO shall submit to ADB a Project completion report providing detailed evaluation of the progress implementation, costs, consultant's performance, social and economic impact and other details as requested by ADB. Project impacts will be

evaluated upon the completion of the Project according to a schedule and terms of reference to be agreed upon by the EA and ADB.

#### Reporting

16. Without limiting the generality of section 6.05 of the Loan Regulations, and to ensure effective Project implementation, the PMO shall furnish quarterly and annual report to ADB and MOF, one month after the period to which they relate indicating progress made, and problems encountered during the review period, steps taken or proposed to be taken to remedy the problems, proposed program of activities, and expected progress during the following period.

#### Financial Statement

17. The PMO shall maintain separate accounts and prepare financial statements for the Project according to international standards.

#### Project Performance Monitoring and Evaluation (PPMS)

18. Within one year of the Effective Date, Mongolia shall have established a PPMS acceptable to ADB. Key performance indicators and assumptions in the Design and Monitoring Framework of the Project as agreed between Mongolia and ADB shall form the basis for the PPMS. The PPMS shall carry out the performance monitoring and reviews during Project implementation, to evaluate the scope, implementation arrangements, benefit monitoring, progress and achievements of the objective of the Project. The PMO shall submit the Project monitoring and evaluation reports to ADB and MOF on a quarterly basis.