
GRANT NUMBER MON-0125 (SF)

GRANT AGREEMENT
(Special Operations)
(Education Sector Reform Project)

between

MONGOLIA

and

ASIAN DEVELOPMENT BANK

DATED 11 DECEMBER 2008

GAS:MON 39254

**GRANT AGREEMENT
(Special Operations)**

GRANT AGREEMENT dated 11 December 2008 between MONGOLIA (the "Recipient") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Recipient has applied to ADB for a grant for the purposes of the Project described in Schedule 1 to this Grant Agreement; and

(B) ADB has agreed to provide a grant (hereinafter called the Grant) to the Recipient from ADB's Special Funds resources upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Grant Regulations; Definitions

Section 1.01. All provisions of the Special Operations Grant Regulations of ADB, dated 7 February 2005 (the "Grant Regulations"), are hereby made applicable to this Grant Agreement with the same force and effect as if they were fully set forth herein.

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

- (a) "aimag" means a province in the Recipient's territory;
- (b) "Consulting Guidelines" means ADB's Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers dated February 2007, as amended from time to time;
- (c) "Goods" means equipment and materials to be financed out of the proceeds of the Grant; and including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;
- (d) "ICT" means information and communications technology;
- (e) "MECS" means Recipient's Ministry of Education, Culture and Science and any successor thereto;
- (f) "MIS" means management information systems;

(g) "MOF" means Recipient's Ministry of Finance and any successor thereto;

(h) "PIU" means the Project Implementation Unit within MECS as staffed and structured for the purposes of the Project as described in paragraph 3 of Schedule 5 hereof;

(i) "Procurement Guidelines" means ADB's Procurement Guidelines dated February 2007, as amended from time to time;

(j) "Procurement Plan" means the procurement plan for the Project dated 7 October 2008 and agreed between the Recipient and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

(k) "Project Executing Agency" for the purposes of, and within the meaning of, the Grant Regulations means MECS or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Project;

(l) "Project facilities" means school facilities rehabilitated under the Project, and facilities, goods, works, and services financed out of the proceeds of the Grant;

(m) "PSC" means the Project Steering Committee to be established for the purposes of the Project as described in paragraph 2 of Schedule 5 to this Grant Agreement;

(n) "PSTT" means pre-service teacher training;

(o) "TRF" means textbook revolving fund;

(p) "TRS" means textbook rental scheme;

(q) "TTI(s)" means teacher training institute(s); and

(r) "Works" means construction or civil works to be financed out of the proceeds of the Grant, 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 Grant

Section 2.01. ADB agrees to make available to the Recipient from ADB's Special Funds resources on terms and conditions set forth in this Agreement an amount of ten million Dollars (\$10,000,000).

ARTICLE III

Use of Proceeds of the Grant

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

Section 3.02. The Goods, Works and consulting services and other items of expenditure to be financed out of the proceeds of the Grant and the allocation of amounts of the Grant among different categories of such Goods, Works and consulting services and other items of expenditure shall be in accordance with the provisions of Schedule 2 to this Grant Agreement, as such Schedule may be amended from time to time by agreement between the Recipient and ADB.

Section 3.03. Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the proceeds of the Grant shall be procured in accordance with the provisions of Schedule 3 to this Grant Agreement.

Section 3.04. Withdrawals from the 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 Works 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 Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 30 September 2013 or such other date as may from time to time be agreed between the Recipient and ADB.

ARTICLE IV

Particular Covenants

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

Section 4.02. (a) The Recipient shall (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 Grant proceeds and compliance with the financial covenants of this Grant Agreement as well as on the use of the procedures for imprest account/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) The Recipient shall enable ADB, upon ADB's request, to discuss the Recipient's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by the Recipient 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 the Recipient unless the Recipient shall otherwise agree.

Section 4.03. The Recipient shall enable ADB's representatives to inspect the Project, the goods financed out of the proceeds of the Grant, and any relevant records and documents.

ARTICLE V

Effectiveness

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

ARTICLE VI

Miscellaneous

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

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

For the Recipient

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

Facsimile Number:
+976-11 262272

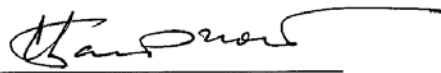
For ADB

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

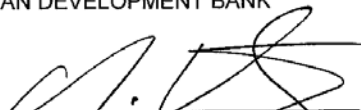
Facsimile Numbers:
(632) 636-2444
(632) 636-2407.

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

MONGOLIA

By 
BAYARTSOGT SANGAJAV

ASIAN DEVELOPMENT BANK

By 
Authorized Representative

SCHEDULE 1

Description of the Project

A. Impact and Outcome

1. The impact of the Project will be improved quality, access, efficiency, and effectiveness of the 12-year education system. The outcome of the Project is a strengthened 12-year education system.

B. Outputs

2. The Project comprises the following four components.

Component 1: Improved Educational Planning, Management, and Budgeting

This component will:

- (i) strengthen the institutional capacity of the Ministry of Education, Culture, and Science for more efficient planning, management, and delivery of education services;
- (ii) improve existing education finance policies to promote autonomy, transparency, and accountability at all levels; and
- (iii) develop a midterm national information and communications technology (ICT) strategy in the education sector.

Component 2: Strengthened Pre-Service Teacher Education

This component will improve the quality of provision and the outputs of the pre-service teacher training (PSTT) system in Mongolia in order to provide effective support to the launch of the new 12-year curriculum, including the following:

- (i) teacher training institutes (TTIs) curriculum reform;
- (ii) development and operationalization of a comprehensive quality assurance system in TTIs, including incentives for teachers in rural areas;
- (iii) enhanced continuous professional development for teacher educators; and
- (iv) reformed teaching practice policy and implementation strategy.

Component 3: Improved Affordability, Quality, and Availability of Teaching and Learning Materials

This component will:

- (i) reduce the costs and improve the quality and availability of textbook and teachers' guide provision for Mongolian primary schools;

- (ii) build on the work of the ICT for Innovating Rural Education in Mongolia project by continuing the delivery of content, reformed pedagogy, and information access to poor schools in rural areas via the cost effective use of ICT;
- (iii) support the design and implementation of a pilot textbook rental scheme and revolving funds in primary grades as described above, in order to reduce textbook costs to parents and teachers and to increase textbook durability, textbook life, and textbook availability at the beginning of the school year;
- (iv) support the extension of the use of ICT in the delivery of new approaches to teaching and learning targeted specifically on poor rural situations, including establishment of ICT centers of excellence; and
- (v) ensure that (a) textbooks, supplementary materials, ICT applications, software, and learning objects are developed from a gender and ethnic minority perspective (i.e., avoid gender stereotyping); and (b) free textbook provision for poor and vulnerable families reaches boys, girls, and ethnic minorities.

Component 4: Upgraded Facilities at Teacher Training Institutes to Support Reforms in Pre-Service Teacher Training

This component will contribute to strengthening capacities of TTIs via the development of improved facilities in selected TTIs, which will include:

- (i) development of technical specifications for laboratory equipment;
- (ii) supply of furniture and equipment including ICT investments to TTIs in selected *aimags*;
- (iii) rehabilitation of selected TTIs;
- (iv) improved provision of teaching and learning resources; and
- (v) enhanced project management capacity.

3. The Project is expected to be completed by 31 March 2013.

SCHEDULE 2

Allocation and Withdrawal of Grant Proceeds

General

1. The table attached to this Schedule sets forth the Categories of Goods, Works and consulting services and other items of expenditure to be financed out of the proceeds of the Grant and the allocation of amounts of the Grant 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 or Subcategories listed in the Table shall be financed out of the proceeds of the Grant on the basis of the percentages set forth in the Table.

Reallocation

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

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

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

Disbursement Procedures

4. Except as ADB may otherwise agree, the Grant proceeds for financing Goods, Works, and consulting services and other items shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2007 (ADB's Loan Disbursement Handbook), as amended from time to time.

Imprest Account; Statement of Expenditures

5. (a) Except as ADB may otherwise agree, the Recipient 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 the Recipient and ADB. The currency of the imprest account shall be dollar.

Schedule 2

The initial amount to be deposited into the imprest account shall not exceed the lower of (i) the estimated expenditure to be financed from the imprest account for the first six months of Project implementation, or (ii) the equivalent of ten (10) percent of the Grant amount.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures for eligible expenses and to liquidate advances provided into the imprest account, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Recipient and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$100,000.

TABLE

ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS (Education Sector Reform Project)				
CATEGORY				ADB FINANCING
	Item	Amount Allocated		Percentage and Basis for Withdrawal from the Grant Account
		\$		
1	TTI Facilities	2,355,000		100 percent of total expenditure*
2	ICT and Equipment	1,489,000		100 percent of total expenditure*
2A	MIS Hardware and Software		241,000	
2B	ICT Software		500,000	
2C	ICT Hardware		748,000	
3	Books and Instructional Materials	4,249,000		100 percent of total expenditure*
3A	Students' Textbooks		3,082,000	
3B	PSTT Library Materials		810,000	
3C	Publications		357,000	
4	Training and Workshops	200,000		100 percent of total expenditure*
4A	Training		181,000	
4B	Workshops		19,000	
5	Consulting Services	900,000		100 percent of total expenditure*
5A	International Consulting Services		400,000	
5B	National Consulting Services		500,000	
6	Project Management	807,000		100 percent of total expenditure*
	Total	10,000,000		

*Exclusive of any local taxes.

SCHEDULE 3

Provisions on Procurement and Consulting Services

A. General

1. All Goods, Works and consulting services to be financed out of the proceeds of the 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 Grant 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. The Recipient may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

4. Domestic Preference The Recipient 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 The Recipient and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Recipient's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Recipient and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after written approval of such change by the Recipient and ADB.
6. Invitations to bid shall be advertised in the Mongolian national language in at least one widely circulated national daily newspaper and freely accessible, nationally-known website in accordance with Article 21.1 of the Public Procurement Law of Mongolia. Bidding of NCB contracts estimated at (i) less than \$500,000 for Goods and related services, and (ii) less than \$1,000,000 for Works shall be advertised concurrently with the general procurement notices on ADB's website.

C. Selection of Consulting Services

7. Quality- and Cost-Based Selection. Except as ADB may otherwise agree, the Recipient shall apply quality- and cost-based selection for selecting and engaging consulting services.

D. Industrial or Intellectual Property Rights

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

E. 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 the Recipient and ADB and set forth in the Procurement Plan.

SCHEDULE 4

Execution of Project and Operation of Project Facilities; Financial Matters

Executing Agency

1. MECS shall be the executing agency (EA) for the Project.

Project Steering Committee

2. A Project Steering Committee (PSC) chaired by the State Secretary of MECS shall be set up for provision of overall guidance and coordination for Project implementation. The PSC shall include senior officials of MOF and MECS and project *aimag*/district representatives will provide overall guidance. The PSC will meet quarterly and be responsible for approving the annual project budget and activity plan and reviewing and advising on implementation progress. Working groups to advise and assist with project implementation shall be established centrally and in pilot areas.

Project Implementation Unit

3. The project implementation unit (PIU) responsible for the daily operation of Third Education Development Project financed by ADB (Loan No. 2238-MON) (TEDP) shall oversee and manage the work undertaken by the implementing agencies, overall management of project finance, and project implementation. New PIU staff whose salaries are paid from the Grant shall be selected and contracted individually in accordance with ADB's *Guidelines for the Use of Consultants* (2007, as amended from time to time), and the TEDP PIU Project Manager shall oversee the work of the PIU staff contracted for the implementation of the Project.

Counterpart Financing

4. The Recipient shall ensure that all funds and resources necessary for rehabilitation, operation and maintenance, and management of the Project are provided in a timely manner. The Recipient shall take all necessary measures, including, but not limited to, the provision of additional funds, to ensure that the Project is successfully implemented, managed and operated after rehabilitation of the teachers training institutes is completed.

Pre-Service Teacher Training

5. Within 2 years of grant effectiveness, the Recipient through MECS shall have developed, approved, and introduced a new pre-service teacher training (PSTT) curriculum. The Recipient shall ensure that all curricula in the five teacher training institutes (TTIs) will conform to the same program standards and will not vary in structure.

Budgeting and Planning Reform

6. Within 2 years of grant effectiveness, the Recipient through MECS shall have approved budgeting and planning reforms, including its related MIS and have prepared a time-bound action plan for these reforms, and ensure that by the midterm review implementation has progressed to full institutionalization of these reforms.

Project Performance Monitoring System

7. Within 6 months of the effectiveness of this Grant Agreement, the Recipient shall ensure that the Project Performance Monitoring System will have been established.

Additional Assurance Regarding Procurement

8. The Recipient shall ensure that (i) evaluation, selection, and performance criteria for bidders and contractors respectively have been clearly identified in a consultative manner and rigorously applied; (ii) tender and evaluation committee members have appropriate procurement, professional, or technical qualifications or experience to evaluate the tenders and have been provided with relevant and appropriate training in evaluation techniques; (iii) inspection and supervision of contractor performance will be strengthened and only products/works that fulfill the contract requirements will be accepted; and (iv) the anti-corruption action plan and codes of ethics and integrity are developed and implemented.

Gender Action Plan

9. The Recipient shall ensure that the Project be implemented in accordance with the gender action plan.

ICT Policy and Strategy

10. By the end of the second year of Project implementation, the Recipient shall ensure that MECS have developed a 5-year strategy and policy for ICT in education and relevant authorities will have approved such a plan. The approved plan will include clear budgetary allocations for the total costs of ownership of ICT hardware investments in the education sector. By the end of the second year of project implementation, the Recipient shall ensure that MECS have developed a time-bound action plan for implementation of the ICT strategy in the education sector.

Textbook

11. The Recipient shall ensure that by the end of the first year of project implementation MECS have developed a time-bound action plan for enhancing textbook production and provision; by the second year MECS have commenced implementation of the action plan for enhancing textbook production and provision based on the pilot system; and within the six months after the pilot implementation for the textbook enhancement is completed, MECS have evaluated the pilot project and will have scaled up the pilot project if deemed appropriate.

Arrangements for TRS/TRF

12. The Recipient shall ensure that disbursements will be made based on achieving milestones in the Project, such as establishment of the TRS/TRF trust fund for the textbook provision and the approval of the ICT National policy for the ICT subcomponent.

13. The Recipient shall ensure that an appropriate management authority is established as for the pilot TRS/TRF. The Recipient shall ensure that appropriate legal charters and operational rules and regulations are established for the operation of TRS/TRF.

14. Based on the results of the pilot implementation of TRS/TRF, the pilot shall be scaled up if successful; or revised for further pilot implemented; or if un-successful, alternative solution may be considered.

Maintenance and Operation of PSTT

15. The Recipient shall ensure that sufficient resources for training supplies and materials, and repair and O&M of facilities and equipment are made available to project-supported public PSTT institutions throughout and after the project implementation period.

Budget for ICT Operation

16. The Recipient shall ensure that adequate budget be provided to the schools for electricity, access to internet, and other basic infrastructure to operate ICT facilities and training equipment provided under the Project.

Project Reviews and Mid-Term Review

17. The Recipient and ADB shall jointly undertake reviews of the Project at least twice a year. The reviews will assess progress in each component, identify issues and constraints, and determine necessary remedial action and adjustments. A midterm review shall be conducted at the end of the second year of implementation. The midterm review shall (i) review the scope, design, and implementation arrangements and identify adjustments required; (ii) assess progress of the project implementation against performance indicators; and (iii) recommend changes in the design or implementation arrangements, if necessary.