
LOAN NUMBER 2523-MON (SF)

GRANT NUMBER 0151-MON

FINANCING AGREEMENT
(Special Operations)
(Social Sectors Support Program)

between

MONGOLIA

and

ASIAN DEVELOPMENT BANK

DATED 26 JUNE 2009

LPS:MON 43096

FINANCING AGREEMENT (Special Operations)

FINANCING AGREEMENT dated 26 June 2009 between MONGOLIA (hereinafter called the "Beneficiary") and ASIAN DEVELOPMENT BANK (hereinafter called "ADB").

WHEREAS

(A) ADB has received from the Beneficiary a development policy letter, dated 29 May 2009 (hereinafter called the "Policy Letter"), setting forth certain objectives, policies and actions, described in Schedule 1 to this Financing Agreement, designed to develop the Beneficiary's social sectors (hereinafter called the "Program");

(B) the Beneficiary has applied to ADB for a loan and a grant from its Special Funds resources for the purposes of the Program;

(C) the Beneficiary has also applied for a technical assistance grant up to the equivalent of seven hundred thousand Dollars (\$700,000) to provide strategic assistance in the social sectors to support the reform process initiated under the Program; and

(D) ADB has, on the basis inter alia of the foregoing, agreed to provide financing by making a loan and a grant to the Beneficiary 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 and Grant Regulations; Definitions

Section 1.01. All the provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 (hereinafter called 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, subject, however, to the following modifications:

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

(b) The term "Borrower", wherever it appears in the Loan Regulations, shall be substituted by the term "Beneficiary" as defined in the opening paragraph of this Financing Agreement.

(c) Section 2.01(24) is deleted and the following is substituted therefor:

24. The term "Program" means the program for which ADB has agreed to make the Loan and the Grant, as described in

the Financing Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Beneficiary.

(d) The term "Project" wherever it appears in the Loan Regulations shall be substituted by the term "Program".

(e) Section 2.01(26) is deleted and the following is substituted therefor:

26. The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Financing Agreement.

(f) The term "Project Executing Agency" wherever it appears in the Loan Regulations shall be substituted by the term "Program Executing Agency".

(g) Section 5.01(a) is deleted and the following is substituted therefor:

(a) Subject to any conditions or restrictions specified in the Financing Agreement, the Beneficiary shall be entitled to withdraw from the Loan Account such amounts as shall be required to meet payments for expenditures required for the Program and to be financed under the Financing Agreement.

Section 1.02. All provisions of the Special Operations Grant Regulations of ADB, dated 7 February 2005 (the "Grant Regulations"), are hereby made applicable to the Grant made pursuant to this Financing Agreement with the same force and effect as if they were fully set forth herein subject, however, to the following modifications:

(a) The term "Grant Agreement", wherever it appears in the Grant Regulations, shall be substituted by the term "Financing Agreement".

(b) The term "Recipient", wherever it appears in the Grant Regulations, shall be substituted by the term "Beneficiary" as defined in the opening paragraph of this Financing Agreement.

(c) Section 2.01(15) is deleted and the following is substituted therefor:

15. The term "Program" means the program for which ADB has agreed to make the Loan and the Grant, as described in the Financing Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Beneficiary.

(d) The term "Project" wherever it appears in the Grant Regulations shall be substituted by the term "Program".

(e) Section 2.01(17) is deleted and the following is substituted therefor:

17. The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Financing Agreement.

(f) The term "Project Executing Agency" wherever it appears in the Grant Regulations shall be substituted by the term "Program Executing Agency".

(g) Section 5.01(a) is deleted and the following is substituted therefor:

(a) Subject to any conditions or restrictions specified in the Financing Agreement, the Beneficiary shall be entitled to withdraw from the Grant Account such amounts as shall be required to meet payments for expenditures required for the Program and to be financed under the Financing Agreement.

Section 1.03. Wherever used in this Financing Agreement, in each case unless the context otherwise requires, the several terms defined in the Loan Regulations and the Grant Regulations have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) "Cabinet" means the Cabinet of the Beneficiary;

(b) "Counterpart Funds" means the Togrogs proceeds accruing to the Beneficiary and generated from the proceeds of the Loan and Grant under the Program and referred to in Schedules 1 and 5 to this Financing Agreement;

(c) "Department of Development Financing and Cooperation" means the Department of Development Financing and Cooperation of the Beneficiary under the MoF or any successor thereto;

(d) "First Tranche" means the portion of the proceeds of the Loan and the Grant in the amount not exceeding the equivalent of twenty six million one hundred six thousand Special Drawing Rights (SDR26,106,000);

(e) "Fiscal Year" means the Beneficiary's fiscal year which starts on 1 January and ends on 31 December;

(f) "Ger area" means the traditional tent areas of residential accommodations in towns, characterized by long strips of large un-serviced plots with wide unpaved roads;

(g) "Grant Deposit Account" means the account referred to in paragraph 4 of Schedule 3B to this Financing Agreement;

(h) "Health Insurance Law" means the Health Insurance Law of the Beneficiary as may be amended from time to time;

(i) "JICA" means the Japan International Cooperation Agency;

(j) "JICA Loan" means the loan from JICA to the Beneficiary in an amount of thirty million Dollars (\$30,000,000) for a related program;

(k) "JICA Loan Agreement" means the agreement between JICA and the Beneficiary, which sets out the terms and conditions of the JICA Loan;

(l) "Loan Deposit Account" means the account referred to in paragraph 4 of Schedule 3A to this Financing Agreement;

(m) "Ministerial Order 416" means the ministerial order issued by MoECS to pilot the interim methodology guidelines on planning and evaluating work performed by general education school teachers;

(n) "MoECS" means the Ministry of Education, Culture and Science of the Beneficiary or any successor thereto;

(o) "MoF" means the Ministry of Finance of the Beneficiary or any successor thereto;

(p) "MoH" means the Ministry of Health of the Beneficiary or any successor thereto;

(q) "MRTCUD" means the Ministry of Roads, Transportation, Construction and Urban Development of the Beneficiary or any successor thereto;

(r) "MSWL" means the Ministry of Social Welfare and Labor of the Beneficiary or any successor thereto;

(s) "Parliament" means the Parliament of the Beneficiary;

(t) "Policy Matrix" means the Policy Matrix as set out in Appendix 3 of the RRP;

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

(v) "PSC" means the Program Steering Committee, as further described in paragraph 2 of Schedule 5 to this Financing Agreement;

(w) "PSU" means Program Support Unit, as further described in paragraph 3 of Schedule 5 to this Financing Agreement;

(x) "RRP" means the Report and Recommendation of the President of ADB to the Board of Directors of ADB for the Loan and the Grant;

(y) "Second Tranche" means the balance of the proceeds of the Loan and the Grant remaining in the Loan and Grant Account after the utilization of the First Tranche, to be withdrawn pursuant to and subject to the provisions of paragraph 5 of Schedule 3A and paragraph 5 of Schedule 3B to this Financing Agreement;

(z) "Togrogs" means togrogs in the currency of the Beneficiary; and

(aa) "UB Municipal Office" means the Ulaanbaatar Municipal Office of the Beneficiary or any successor thereto.

ARTICLE II

The Loan and the Grant

Section 2.01. ADB agrees to provide to the Beneficiary from ADB's Special Funds resources:

(a) a loan in various currencies equivalent to twenty eight million one hundred twenty nine thousand Special Drawing Rights (SDR28,129,000) (the "Loan"); and

(b) a grant in the amount of sixteen million nine hundred thousand Dollars (\$16,900,000) (the "Grant").

Section 2.02. (a) The Beneficiary 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 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 January and 15 July in each year.

Section 2.04. The Beneficiary 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.

ARTICLE III

Use of Proceeds of the Loan and the Grant

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

Section 3.02. (a) The proceeds of the Loan may be withdrawn from the Loan Account only for the purposes of financing foreign currency expenditures incurred for Eligible Items under the Program in accordance with the provisions of

Schedule 3A to this Financing Agreement, as such Schedule 3A may be amended from time to time by agreement between the Beneficiary and ADB; and

(b) The proceeds of the Grant may be withdrawn from the Grant Account only for the purposes of financing expenditures incurred for Eligible Items under the Program in accordance with the provisions of Schedule 3B to this Financing Agreement, as such Schedule 3B may be amended from time to time by agreement between the Beneficiary and ADB.

Section 3.03. Except as ADB may otherwise agree, all Eligible Items to be financed out of the proceeds of the Loan and the 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 the Grant Account shall be made only on account of expenditures relating to Eligible Items which:

- (a) are produced in, and 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) meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. Except as ADB may otherwise agree, no withdrawals shall be made from the Loan Account and the Grant Account in respect of expenditures for Eligible Items incurred more than one hundred eighty (180) days prior to the Effective Date.

Section 3.06. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations and the Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 31 December 2010 or, in each case, such other date as may from time to time be agreed between the Beneficiary and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Program, the Beneficiary shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Financing Agreement.

Section 4.02. (a) The Beneficiary shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and the Grant and to record the progress of the Program.

(b) The Beneficiary shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.

Section 4.03. (a) As part of the reports and information referred to in Section 6.05 of the Loan Regulations and Section 6.04 of the Grant Regulations, the Beneficiary shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Counterpart Funds and the use thereof; and (ii) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

(b) Without limiting the generality of the foregoing or Section 6.05 of the Loan Regulations and Section 6.04 of the Grant Regulations, the Beneficiary shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

ARTICLE V

Suspension; Cancellation; Acceleration of Maturity

Section 5.01. The following is specified as an additional event for suspension of the right of the Beneficiary to make withdrawals from (a) the Loan Account for the purposes of Section 8.01(m) of the Loan Regulations; and (b) the Grant Account for the purposes of Section 8.01(k) of the Grant Regulations, respectively: the JICA Loan shall have become liable for suspension or cancellation or shall have become repayable prior to its agreed maturity date; and

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 Financing Agreement shall have occurred.

ARTICLE VI

Effectiveness

Section 6.01. The following are specified as additional conditions to the effectiveness of this Financing Agreement for the purposes of Section 9.01(f) of the Loan Regulations and Section 9.01(e) of the Grant Regulations, respectively:

(a) the JICA Loan Agreement shall have been duly executed and delivered, and all conditions precedent to its effectiveness (other than a condition requiring the effectiveness of this Financing Agreement) shall have been fulfilled or arrangements satisfactory to ADB shall have been made for the fulfillment thereof within a period of time satisfactory to ADB;

(b) the Beneficiary shall have complied to the satisfaction of ADB all of the conditions for the release of the First Tranche as set out in Attachment 2 to Schedules 3A and 3B;

(c) the Beneficiary shall have established the PSC to the satisfaction of ADB; and

(d) the Beneficiary shall have established the PSU, including allocation of the necessary office space and facilities, to the satisfaction of ADB.

Section 6.02. 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 and Section 9.04 of the Grant Regulations.

ARTICLE VII

Miscellaneous

Section 7.01. The Minister of Finance of the Beneficiary is designated as representative of the Beneficiary for the purposes of Section 11.02 of the Loan Regulations and Section 11.02 of the Grant Regulations.

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

For the Beneficiary

Ministry of Finance
Zasgiin Gazryn II Bair
Negdsen Undestnii gudamj – 5/1
Ulaanbaatar – 15160
Mongolia

Facsimile Number:

(976-11) 262-272.

For ADB

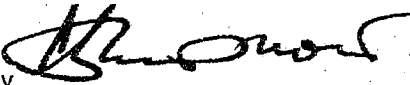
Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Facsimile Numbers:

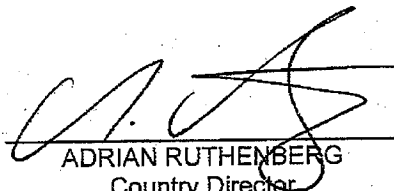
(632) 636-2444
(632) 636-2407.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this 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 
BAYARTSOGT SANGAJAV
Authorized Representative

ASIAN DEVELOPMENT BANK

By 
ADRIAN RUTHENBERG
Country Director
Mongolia Resident Mission

SCHEDULE 1

Description of the Program

1. The principal objective of the Program is to mitigate the effect of the economic crisis on the poor in the short term by ensuring pro-poor funding of priority programs for basic services and in the long-term by initiating reforms to increase the efficiency of social welfare assistance and improve living conditions of the poor. The Program is described in more detail in the Policy Letter. The Program will be implemented during the period until 31 December 2010.

2. In support of the Program:

(a) the proceeds of the Loan shall be used to finance the foreign exchange costs of Eligible Items;

(b) the proceeds of the Grant shall be used to finance the remaining costs of Eligible Items; and

(c) the Counterpart Funds shall be used to finance the local currency costs relating to the implementation of certain programs and other activities consistent with the objectives of the Program, pursuant to the provisions of paragraph 11 of Schedule 5 to this Financing Agreement.

3. The proceeds of the Loan and the Grant are expected to be utilized by 31 December 2010.

SCHEDULE 2

Amortization Schedule

(Social Sectors Support Program)

<u>DATE</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
-	
15-Jul-2017	879,031.00
15-Jan-2018	879,031.00
15-Jul-2018	879,031.00
15-Jan-2019	879,031.00
15-Jul-2019	879,031.00
15-Jan-2020	879,031.00
15-Jul-2020	879,031.00
15-Jan-2021	879,031.00
15-Jul-2021	879,031.00
15-Jan-2022	879,031.00
15-Jul-2022	879,031.00
15-Jan-2023	879,031.00
15-Jul-2023	879,031.00
15-Jan-2024	879,031.00
15-Jul-2024	879,031.00
15-Jan-2025	879,031.00
15-Jul-2025	879,031.00
15-Jan-2026	879,031.00
15-Jul-2026	879,031.00
15-Jan-2027	879,031.00
15-Jul-2027	879,031.00
15-Jan-2028	879,031.00
15-Jul-2028	879,031.00
15-Jan-2029	879,031.00
15-Jul-2029	879,031.00
15-Jan-2030	879,031.00
15-Jul-2030	879,031.00
15-Jan-2031	879,031.00
15-Jul-2031	879,031.00
15-Jan-2032	879,031.00
15-Jul-2032	879,031.00
15-Jan-2033	879,039.00
TOTAL	28,129,000.00

* 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 relevant provisions of the Special Operations Loan Regulations.

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

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Loan proceeds from the Loan Account.

2. (a) Withdrawals from the Loan Account shall be made for the financing of the foreign exchange cost of Eligible Items.

(b) No withdrawals from the Loan Account shall be made in respect of (i) any local expenditures; or (ii) any foreign exchange expenditures which have been financed by credits from official international or bilateral aid agencies or any other loans made by ADB.

3. (a) An application for withdrawal from the Loan Account shall be submitted to ADB by the Beneficiary and shall be in a form satisfactory to ADB.

(b) Such withdrawal application shall be accompanied by a certificate of the Beneficiary confirming that (i) in case the proceeds of the Loan will finance imports already made, the value of Eligible Imports in the period concerned exceeded the amount of the requested withdrawal; or (ii) in case the proceeds of the Loan will finance items to be imported, the value of Eligible Imports in the immediately preceding one-year period was equal to or greater than the amount of the requested withdrawal plus all other amounts expected to be withdrawn from the Loan Account during the succeeding one-year period.

(c) For the purposes of this paragraph, the term "Eligible Imports" means the total imports of the Beneficiary during the relevant period minus the following imports during the same period:

- (i) imports from countries which are not members of ADB;
- (ii) imports for ineligible items specified in Attachment 1 to this Schedule; and
- (iii) imports financed from credits from official international or bilateral aid agencies or any other loans made by ADB.

(d) The Beneficiary shall allow experts appointed by ADB to verify the value of Eligible Imports during any period in respect of which the Beneficiary has certified the value of Eligible Imports in its withdrawal application.

4. (a) Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Beneficiary shall open an account (the Loan Deposit Account) at the Central Bank of Mongolia into which all withdrawals from the Loan Account shall be deposited. The Loan Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.

(b) Separate accounts and records in respect of the Loan Deposit Account shall be maintained in accordance with consistently maintained sound accounting principles.

Upon ADB's request, the Beneficiary shall have the Loan Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with appropriate auditing standards. Promptly after their preparation but in any event not later than six (6) months after the date of ADB's request, certified copies of such audited accounts and records shall be furnished to ADB, all in the English language.

(c) Throughout the Program implementation period, the Beneficiary shall submit trade statistics and any other information as ADB may require from time to time to assess the Beneficiary's compliance with the formula for determining Eligible Imports.

5. Notwithstanding any other provisions of this Financing Agreement or the Loan Regulations and except as ADB may otherwise agree, no withdrawals shall be made from the Second Tranche unless ADB shall be satisfied, after consultation with the Beneficiary, that (a) sufficient progress has been achieved by the Beneficiary in the carrying out of the Program; and, in particular; and (b) the Beneficiary has fulfilled the conditions for the release of the Second Tranche specified in Attachment 3 to this Schedule.

SCHEDULE 3B**Allocation and Withdrawal of Grant Proceeds**

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Grant proceeds from the Grant Account.

2. (a) Withdrawals from the Grant Account shall be made for the financing of the cost of Eligible Items.

(b) No withdrawals from the Grant Account shall be made in respect of any expenditures which have been financed by credits from official international or bilateral aid agencies or any other loans or grants made by ADB.

3. (a) An application for withdrawal from the Grant Account shall be submitted to ADB by the Beneficiary and shall be in a form satisfactory to ADB.

(b) Such withdrawal application shall be accompanied by a certificate of the Beneficiary confirming that (i) in case the proceeds of the Grant will finance imports already made, the value of Eligible Imports in the period concerned exceeded the amount of the requested withdrawal; or (ii) in case the proceeds of the Grant will finance items to be imported, the value of Eligible Imports in the immediately preceding one-year period was equal to or greater than the amount of the requested withdrawal plus all other amounts expected to be withdrawn from the Grant Account during the succeeding one-year period.

(c) For the purposes of this paragraph, the term "Eligible Imports" means the total imports of the Beneficiary during the relevant period minus the following imports during the same period:

- (i) imports from countries which are not members of ADB;
- (ii) imports for ineligible items specified in Attachment 1 to this Schedule; and
- (iii) imports financed from credits from official international or bilateral aid agencies or any other loans made by ADB.

(d) The Beneficiary shall allow experts appointed by ADB to verify the value of Eligible Imports during any period in respect of which the Beneficiary has certified the value of Eligible Imports in its withdrawal application.

4. (a) Prior to submitting the first application to ADB for withdrawal from the Grant Account, the Beneficiary shall open an account (the Grant Deposit Account) at the Central Bank of Mongolia into which all withdrawals from the Grant Account shall be deposited. The Grant Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.

(b) Separate accounts and records in respect of the Grant Deposit Account shall be maintained in accordance with consistently maintained sound accounting principles. Upon ADB's request, the Beneficiary shall have the Grant Deposit Account

audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with appropriate auditing standards. Promptly after their preparation but in any event not later than six (6) months after the date of ADB's request, certified copies of such audited accounts and records shall be furnished to ADB, all in the English language.

(c) Throughout the Program implementation period, the Beneficiary shall submit trade statistics and any other information as ADB may require from time to time to assess the Beneficiary's compliance with the formula for determining Eligible Imports.

5. Notwithstanding any other provisions of this Financing Agreement or the Grant Regulations and except as ADB may otherwise agree, no withdrawals shall be made from the Second Tranche unless ADB shall be satisfied, after consultation with the Beneficiary, that (a) sufficient progress has been achieved by the Beneficiary in the carrying out of the Program; and, in particular; and (b) the Beneficiary has fulfilled the conditions for the release of the Second Tranche specified in Attachment 3 to this Schedule.

Negative List

1. Loan and Grant proceeds will finance the foreign currency expenditures for the reasonable cost of imported goods required during the Social Sectors Support Program.
2. No withdrawals will be made for the following:
 - (i) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3) or any successor groups or sub-groups under future revisions to the SITC, as designated by ADB by notice to the Beneficiary:

Table A12: Ineligible Items

Chapter	Heading	Description of Items
112		Alcoholic beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, nonmonetary (excluding gold ore and concentrates)

Source: United Nations.

- (ii) expenditures in the currency of the Beneficiary or of goods supplied from the territory of the Beneficiary;
- (iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;
- (iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) expenditures for narcotics;
- (vi) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Beneficiary or international agreements to which the Beneficiary is a party, and any other goods designated as environmentally hazardous by agreement between the Beneficiary and ADB; and

- (vii) expenditures on account of any payment prohibited by the Beneficiary in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

Conditions for Release of the First Tranche**A. General Condition**

1. The Beneficiary has successfully implemented its macro-economic stabilization program.

B. Social Welfare Sector

2. The Beneficiary, through MSWL, has prepared a plan to reform the social welfare system, which improves targeting through proxy-means testing and consolidates social welfare programs. The plan shall incorporate (i) institutional changes; (ii) actions for implementation, including transition strategy; (iii) options for addressing the challenges; (iv) stakeholders' responsibilities; and (v) funding.
3. The Beneficiary, through MSWL, has undertaken critical assessment of the existing drug discount system.
4. The Beneficiary, through MSWL, has established a working group on improving drug discount system.
5. The Beneficiary, through MSWL, has finalized the guidelines on the expanded drug discount system.
6. The Beneficiary, through MSWL, has established a working group to target health insurance subsidies.

C. Health Sector

7. The Beneficiary, through MoH, has established a working group on emergency mechanism.
8. The Beneficiary, through MoH, has established a working group on micronutrients expansion.
9. The Beneficiary, through MoH, has finalized the expansion plan, which includes targeting measures.
10. The Beneficiary, through MoH and MSWL, has established a joint MOH-MSWL working group on medicard.

D. Education Sector

11. The Beneficiary, through MoECS, has established a working group to assess the implementation viability of proxy means testing.

12. The Beneficiary, through MoECS, has prepared a draft action plan of in-service teachers training system to expand the new teaching methods.
13. The Beneficiary, through MoECS, has established a working group to assess the results of the evaluation system for the new teaching methods piloted under Ministerial Order No. 416.

E. Urban Sector

14. The Beneficiary, through MRTAUD and UB Municipal Office, has established a working group, which will include environmental and resettlement experts, to (i) revise the UB master plan based on the final draft of UB master plan study, and (ii) prioritize programs.
15. The Beneficiary, through UB Municipal Office, has established a working group on capacity building for the development of the Ger areas.

Conditions for Release of the Second Tranche

A. General Condition

1. The Beneficiary has successfully implemented its macro-economic stabilization program.

B. Social Welfare Sector

2. The Cabinet has submitted to the Parliament a targeted and consolidated social welfare program.
3. The Parliament has approved the budget for fiscal year 2010, which includes financing for a targeted and consolidated social welfare program.
4. The Beneficiary, through MSWL, has approved an improved drug discount system based on the results of the assessment.
5. The Beneficiary, through MSWL, has pilot-tested the key aspects of the expanded drug discount system.
6. The Beneficiary, through MSWL, has finalized the action plan for implementing targeted health insurance subsidies.
7. The Beneficiary has prepared a draft amendment of the Health Insurance Law.

C. Health Sector

8. The Beneficiary, through MoH, has established the emergency mechanism, which will encompass (i) the identification of the funding, and (ii) the availability of guidelines.
9. The Beneficiary, through MoH, has approved the expansion of the coverage of the household micronutrients fortification.
10. The Beneficiary, through MoH, has approved the introduction of medicard for the poor, based on either proxy means-testing or a transition strategy until the proxy means testing is finalized.
11. The Beneficiary, through MoH, has finalized the action plan on the implementation of medicard.

D. Education Sector

12. The Beneficiary, through MoECS, has approved targeted subsidies for secondary level textbooks taking into account the findings of the working group.

13. The Beneficiary, through MoECS, has finalized the action plan of in-service teachers training system to expand new teaching methods.
14. The Beneficiary, through MoECS, has developed, printed and distributed the teacher's guidebooks on the new teaching methods to all relevant teachers.
15. The Beneficiary, through MoECS, has approved the new evaluation system.

E. Urban Sector

16. The Parliament has approved the budget for fiscal year 2010, which includes funding for the revision of the master plan.
17. The Beneficiary, through UB Municipal Office, has developed capacity building material and guidelines for (i) the development of Ger areas, and (ii) environment and other social safeguard policies.

SCHEDULE 4

Procurement

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraph of this Schedule shall apply in the procurement of Eligible Items to be financed out of the proceeds of the Loan and the Grant.

2. (a) Except as provided in subparagraph (b) of this paragraph, each contract for Eligible Items shall be awarded on the basis of either the purchaser's normal commercial procurement practices, in the case of procurement by the private sector, or the Beneficiary's prescribed procurement procedures, in the case of procurement by the public sector, having due regard for the principles of economy and efficiency.

(b) Each supply contract for Eligible Items which are commonly traded commodities shall be awarded on the basis of procedures appropriate to the trade and acceptable to ADB.

SCHEDULE 5

Program Implementation and Other Matters

Program Management

1. The Beneficiary shall appoint MoF as the Program Executing Agency and assume overall responsibility for the implementation of the Program. MSWL, MoH, MoECS, MRTAUD, and the UB Municipal Office shall each serve as the implementing agencies. Each implementing agency shall assume responsibility for the implementation of the policy actions related to its areas of responsibilities.

Program Steering Committee

2. The Program Executing Agency shall establish the PSC to be chaired by the State Secretary, MoF. The members of the PSC shall be the senior representatives of the implementing agencies. The PSC shall (a) monitor the Program; and (b) provide policy and strategic guidance.

Program Support Unit

3. The Program Executing Agency shall also establish a PSU that shall (a) serve as the secretariat of the PSC; (b) manage the implementation of the Program, including liaising with the various implementation agencies to ensure proper and timely achievement, adoption, compliance, and implementation of the policy measures; and (c) prepare and submit necessary reports, including periodic progress reports, to ADB. The Program Executing Agency shall appoint a staff member from its Department of Development Financing and Cooperation to head the PSU, who shall be assisted by a deputy to be recruited externally through a competitive process. The Program Executing Agency shall also allocate appropriate office space and facilities to ensure an effective and efficient PSU. Each implementing agency shall appoint a staff member to act as its Program focal point and coordinate with the head of the PSU.

Implementation of the Policy Letter

4. The Beneficiary shall ensure (a) proper and timely achievement, adoption, compliance, and implementation of the objectives, policies and actions as set forth in the Policy Letter and the Policy Matrix; and (b) that the policies adopted and the actions taken as set forth in the Policy Letter and the Policy Matrix shall continue to be in full force and effect for the duration of the Program period and subsequently.

Policy Sector Dialogue

5. The Beneficiary shall keep ADB informed of, and the Beneficiary and ADB shall from time to time exchange views on, sector issues and policy reforms that may be considered necessary or desirable, including the progress made in carrying out policies and actions as set forth in the Policy Letter and the Policy Matrix.

6. The Beneficiary shall promptly discuss with ADB problems and constraints encountered during implementation of the Program and appropriate measures to overcome or mitigate such problems and constraints.

7. The Beneficiary shall keep ADB informed of policy discussions with other multilateral or bilateral agencies that have implications for the implementation of the Program, and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Beneficiary shall consider ADB's views before finalizing and implementing any such proposals.

Budget Expenditures

8. The Beneficiary shall take necessary measures to ensure certain minimum amount of expenditures are allocated within the state budget to ensure that (a) the capitation rates in 2010 for family group practices and soum health centers, at minimum, remain equal to its 2008 level; and (b) the benefit level of the child money program per child in 2010 for the lowest socio-economic quintile, at minimum, remains equal to its 2008 level.

Safeguard Policies

9. The Beneficiary shall ensure that guidelines and capacity building materials on environment and social safeguard policies as they relate to the urban master plan and improvement of living conditions in ger areas shall be prepared in compliance with (a) ADB's *Environment Policy* (2002); (b) ADB's *Involuntary Resettlement Policy* (1995); and (c) ADB's *Policy on Indigenous Peoples* (1998).

Gender Action Plan

10. The Beneficiary shall ensure that the Gender Action Plan agreed under the Program shall be implemented in a timely manner.

Use of Counterpart Funds

11. The Beneficiary shall ensure that the Counterpart Funds shall be used to (a) finance expenditures for the Beneficiary's general development purposes; and (b) support the adjustment costs of reforms to be initiated and implemented under the Program.