
LOAN NUMBER 3288-MON (SF)
(Additional to Grant Number 0115-MON (SF))

LOAN AGREEMENT
(Special Operations)

(Agriculture and Rural Development Project - Additional Financing)

between

MONGOLIA

and

ASIAN DEVELOPMENT BANK

DATED 28 October 2015

MON 39229

**LOAN AGREEMENT
(Special Operations)**

LOAN AGREEMENT dated 28 October 2015 between MONGOLIA ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) by a grant agreement dated 24 October 2008 between the Borrower and ADB ("Grant Agreement"), ADB agreed to provide a grant to the Borrower from ADB's Special Funds resources in an amount of fourteen million seven hundred twenty thousand Dollars (\$14,720,000) for the purposes of the project described in Schedule 1 to the Grant Agreement ("Original Project");

(B) by an agreement of even date herewith entered into between the Borrower and ADB ("Ordinary Operations Loan Agreement"), ADB has agreed to provide the Borrower a loan from ADB's ordinary capital resources in an amount of thirty-five million dollars (\$35,000,000) for the purposes of the Project described in Schedule 1 to this Loan Agreement;

(C) the Borrower wishes to scale-up the Original Project and has applied to ADB for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement; and

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

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations; Definitions

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

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

(a) "Consulting Guidelines" means the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2013, as amended from time to time);

(b) “Consulting Services” means the services to be financed out of the proceeds of the Loan as described in paragraph 3 of Schedule 1 to this Loan Agreement;

(c) “Environmental Assessment and Review Framework” or “EARF” means the environmental assessment and review framework for the Project, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;

(d) “Environmental Management Plan” or “EMP” means an environmental management plan for a Subproject, including any update thereto, incorporated in the IEE;

(e) “Environmental Safeguards” means the principles and requirements set forth in Chapter V, Appendix 1, and Appendix 4 (as applicable) of the SPS;

(f) “Ethnic Minority Development Plan” or “EMDP” means an indigenous peoples plan for a Subproject, including any update thereto, prepared and submitted by the Borrower pursuant to the requirements set forth in the EMPF and cleared by ADB;

(g) “Ethnic Minority Planning Framework” or “EMPF” means the indigenous peoples planning framework for the Project, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;

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

(i) “Indigenous Peoples Safeguards” means the principles and requirements set forth in Chapter V, Appendix 3, and Appendix 4 (as applicable) of the SPS;

(j) “Initial Environmental Examination” or “IEE” means an initial environmental examination for a Subproject, including any update thereto, prepared and submitted by the Borrower pursuant to the requirements set forth in the EARF and cleared by ADB;

(k) “Loan Disbursement Handbook” means ADB’s Loan Disbursement Handbook (2015, as amended from time to time);

(l) “MEGDT” means the Borrower’s Ministry of Environment, Green Development and Tourism or any successor thereto; and the term “MNE” wherever appearing in the Grant Agreement shall be substituted with the term “MEGDT”;

(m) “MOF” means the Borrower’s Ministry of Finance or any successor thereto acceptable to ADB;

(n) “MOFA” means the Borrower’s Ministry of Food and Agriculture or any successor thereto acceptable to ADB;

(o) “MOI” means the Borrower’s Ministry of Industry or any successor thereto acceptable to ADB;

(p) "Onlending Agreement" means an agreement to be entered into between MOF and a Participating Bank, as described in paragraph 4 of Schedule 5 to this Loan Agreement, upon terms and conditions acceptable to ADB;

(q) "Output" means an output specified in Schedule 1 to this Loan Agreement;

(r) "PAM" means the project administration manual for the Project dated 8 July 2015 and agreed between the Borrower and ADB, as updated from time to time in accordance with the respective administrative procedures of the Borrower and ADB;

(s) "Participating Enterprise" means any private agro-enterprise or cooperative selected for participation in the Project;

(t) "Procurement Guidelines" means ADB's Procurement Guidelines (2015, as amended from time to time);

(u) "Procurement Plan" means the procurement plan for the Project dated 8 July 2015 and agreed between the Borrower and ADB, as updated from time to time in accordance with the Procurement Guidelines, the Consulting Guidelines, and other arrangements agreed with ADB;

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

(w) "Project Implementing Agencies" or "IAs" means MOFA and MOI or any successor thereto acceptable to ADB, which are responsible for the implementation of the Project;

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

(y) "Safeguards Monitoring Report" means each report prepared and submitted by the Borrower to ADB that describes progress with implementation of and compliance with the EARF, IEEs, EMPs, EMPF and the IPPs (as applicable), including any corrective and preventative actions;

(z) "Special Account" means an account established at BOM by each Participating Bank into which MOF shall transfer a portion of the proceeds of the Loan;

(aa) "Subloan" means a loan made or to be made by a Participating Bank to a Participating Enterprise for a Subproject;

(bb) "Subloan Agreement" means an agreement to be entered into between a Participating Bank and a Participating Enterprise for a Subproject;

(cc) "Subproject" means a subproject to be carried out by a Participating Enterprise utilizing the proceeds of the Subloan; and

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

ARTICLE II

The Loan

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to ten million seven hundred nineteen thousand Special Drawing Rights (SDR10,719,000).

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

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

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 March and 15 September in each year.

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

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

ARTICLE III

Use of Proceeds of the Loan

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

(b) The Borrower shall onlend a portion of the proceeds of the Loan to the Participating Banks for the purposes of Output 1(c) of the Project, under the Onlending Agreements, upon terms and conditions satisfactory to ADB.

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

Section 3.03. Except as ADB may otherwise agree, the Borrower shall procure, or cause to be procured, the items of expenditure to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to this Loan Agreement.

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

Section 3.05. Withdrawals from the Loan Account in respect of Goods, 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 3.06. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 June 2021 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

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

Section 4.02. (a) The Borrower shall (i) maintain separate accounts and records for the Project; (ii) cause each Participating Bank to maintain the Special Account and other separate accounts and records for the Subloan(s); (iii) prepare annual financial statements for the Project in accordance with accounting principles acceptable to ADB; (iv) cause each Participating Bank to prepare and submit to the Borrower a statement of utilization of funds for the Subloan(s) in accordance with accounting principles acceptable to ADB; (v) have such financial statements, including the statement of utilization of funds for the Subloan(s) prepared by each Participating Bank, audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent

acceptable to ADB; (vi) as part of each such audit, have the auditors prepare a report (which includes the auditors' opinion on the financial statements, statements of utilization of funds, use of the Loan proceeds and compliance with the financial covenants of this Loan Agreement and the Onlending Agreements as well as on the use of the procedures for the imprest funds and statement of expenditures) and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (vii) furnish to ADB, no later than 6 months after the end of each related fiscal year, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) The Borrower shall cause each Participating Bank to (i) prepare its own entity-level annual financial statements in accordance with national accrual-based financing reporting standards acceptable to ADB; (ii) have such financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB; (iii) as part of each such audit, have the auditors prepare a report (which includes the auditors' opinion on the financial statements) and a management letter; and (iv) furnish to ADB through the Borrower, no later than 6 months after the end of each related fiscal year, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(c) ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements referred to in Section 4.02(a) hereinabove within 30 days of the date of their receipt by posting them on ADB's website.

(d) The Borrower shall enable ADB, upon ADB's request, to discuss the financial statements for the Project and the Borrower's financial affairs where they relate to the Project with the auditors appointed pursuant to subsection (a)(v) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of the Borrower, unless the Borrower shall otherwise agree.

(e) The Borrower shall cause each Participating Bank to enable ADB, upon ADB's request, to discuss the entity-level annual financial statements and the Participating Bank's financial affairs where they relate to the Subproject(s) with the auditors appointed pursuant to subsection (b)(ii) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of the Participating Bank, unless the Participating Bank shall otherwise agree.

Section 4.03. The Borrower shall enable ADB's representatives to inspect the Project, the Goods and Works, and any relevant records and documents.

ARTICLE V

Suspension; Acceleration of Maturity

Section 5.01. The following are specified as additional events for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 8.01(m) of the Loan Regulations:

- (a) a party to an Onlending Agreement shall have failed to perform one or more of its obligations under an Onlending Agreement;
- (b) the Borrower shall have failed to perform one or more of its obligations under the Grant Agreement; and
- (c) the Borrower shall have failed to perform one or more of its obligations under the Ordinary Operations Loan Agreement.

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: any of the events specified in Section 5.01 of this Loan Agreement shall have occurred.

ARTICLE VI

Effectiveness

Section 6.01. A date 90 days after the date of this Loan Agreement is specified for the effectiveness of this Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE VII

Miscellaneous

Section 7.01. MOF is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

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

For the Borrower

Ministry of Finance
Government Building 2
S. Danzan Street 5/1
Ulaanbaatar 15160
Mongolia

Facsimile Number:

(976) 11-320247.

For ADB

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

Facsimile Numbers:

(632) 636-2444

(632) 636-2534.

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

MONGOLIA

By  _____
BOLOR BAYARBAATAR
Minister
Ministry of Finance

ASIAN DEVELOPMENT BANK

By  _____
RAUSHANBEK MAMATKULOV
Authorized Representative

SCHEDULE 1

Description of the Project

1. The objective of the Project is to increase value addition on Mongolian agricultural resources.

2. The Project shall comprise the following Outputs:

Output 1: Financing of Value Chain Investments

This Output comprises: (a) preparation of value chain investment proposals; (b) due diligence of Subprojects; (c) provision of Subloans to Participating Enterprises to improve their value chains and/or to enhance their production and productivity; and (d) capacity development of Participating Banks and Participating Enterprises on financial management, value chain development and social and environmental safeguards.

Output 2: Improvement of Production Capacity of Herders and Farmers

This Output comprises: (a) capacity development of herders, farmers and primary processors of agricultural products; (b) provision of veterinary medical supplies, equipment, machinery, material and inputs for herders, farmers and primary processors of agricultural products; and (c) construction of livestock primary processing facility.

Output 3: Improvement of Marketing and Technical Capacity of Participating Enterprises

This Output comprises: (a) marketing and technical capacity development of the Participating Enterprises to enable them to produce and deliver high value and/or quality products to domestic and international markets; and (b) provision of equipment and capacity development of technical and research institutes dealing with food and agriculture products.

Output 4: Development of Mongolian Product Brand(s)

This Output comprises: (a) brand development of export-oriented products; and (b) promotion and management of brand(s) developed and/or to be developed under the Project.

3. The Project shall finance Consulting Services for Output 1 and project management.

4. The Project is expected to be completed by 31 December 2020.

SCHEDULE 2**Amortization Schedule****(Agriculture and Rural Development Project – Additional Financing)**

Payment Due	Payment of Principal (expressed in Special Drawing Rights)*
15 March 2021	268,000
15 September 2021	268,000
15 March 2022	268,000
15 September 2022	268,000
15 March 2023	268,000
15 September 2023	268,000
15 March 2024	268,000
15 September 2024	268,000
15 March 2025	268,000
15 September 2025	268,000
15 March 2026	268,000
15 September 2026	268,000
15 March 2027	268,000
15 September 2027	268,000
15 March 2028	268,000
15 September 2028	268,000
15 March 2029	268,000
15 September 2029	268,000
15 March 2030	268,000
15 September 2030	268,000
15 March 2031	268,000
15 September 2031	268,000
15 March 2032	268,000
15 September 2032	268,000
15 March 2033	268,000
15 September 2033	268,000
15 March 2034	268,000
15 September 2034	268,000
15 March 2035	268,000
15 September 2035	268,000
15 March 2036	268,000
15 September 2036	268,000
15 March 2037	268,000

15 September 2037	268,000
15 March 2038	268,000
15 September 2038	268,000
15 March 2039	268,000
15 September 2039	268,000
15 March 2040	268,000
15 September 2040	267,000
TOTAL	10,719,000

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

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

1. The table attached to this Schedule sets forth the Categories of items of expenditure to be financed out of the proceeds of the Loan and the allocation of the Loan proceeds to each such Category ("Table"). (Reference to "Category" in this Schedule is to a Category or Subcategory of the Table.)

Basis for Withdrawal from the Loan Account

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

Interest Charge

3. The amount allocated to Category 8 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 the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

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

Disbursement Procedures

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

Conditions for Withdrawals from Loan Account

6. Notwithstanding any other provision of this Loan Agreement, no withdrawals or transfers shall be made from the Loan Account to the Special Account of a Participating Bank until MOF and such Participating Bank shall have duly entered into an Onlending

Agreement which shall include the terms and conditions set forth in paragraph 4 of Schedule 5 to this Loan Agreement and such Onlending Agreement shall have become legally binding upon the Borrower and such Participating Bank in accordance with its terms.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS			
Agriculture and Rural Development Project - Additional Financing			
Number	Item	Amount Allocated (SDR) Category	Basis for Withdrawal from the Loan Account
1	Works	168,000	100% of total expenditure claimed
2	Equipment and Materials	1,812,000	100% of total expenditure claimed
3	Consulting Services	602,000	100% of total expenditure claimed
4	Value Chain Investments ^a	5,931,000	100% of total expenditure claimed
5	Training	766,000	100% of total expenditure claimed
6	Marketing and Brand Development	359,000	100% of total expenditure claimed
7	Project Management	549,000	100% of total expenditure claimed
8	Interest	532,000	100% of amounts due
	Total	10,719,000	

^aSubject to the conditions for withdrawal described in paragraph 6 of Schedule 3.

SCHEDULE 4

Procurement of Goods, Works and Consulting Services

General

1. The procurement of Goods, Works and Consulting Services shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.

2. All terms used in this Schedule and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:

- (a) National Competitive Bidding; and
- (b) Shopping.

4. The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

National Competitive Bidding

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

Conditions for Award of the Contracts

6. The Borrower shall not award any Works contract for a Subproject which involves environmental impacts until the Borrower has:

- (a) obtained the final approval of the IEE from MEGDT;
- (b) incorporated the relevant provisions from the EMP into the Works contract; and
- (c) obtained approval from ADB of the EMDP, if any.

Consulting Services

7. Except as ADB may otherwise agree, and except as set forth in the paragraph below, the Borrower shall apply quality- and cost-based selection for selecting and engaging Consulting Services.

8. The Borrower shall recruit the individual consultants in accordance with procedures acceptable to ADB for recruiting individual consultants.

Industrial or Intellectual Property Rights

9. (a) The Borrower shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Borrower shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

10. The Borrower shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the Consulting Services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

ADB's Review of Procurement Decisions

11. Contracts for Consulting Services shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.

SCHEDULE 5

Execution of Project; Financial Matters

Implementation Arrangements

1. The Borrower and MOF shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such change by the Borrower and ADB. In the event of any discrepancy between the PAM and this Loan Agreement, the provisions of this Loan Agreement shall prevail.

2. The Borrower and MOF shall ensure that the Project is implemented in accordance with paragraphs 7, 8, 11 and 12 of Schedule 4 to the Grant Agreement (which are incorporated herein by reference and form an integral part of this Loan Agreement).

Eligibility Criteria for Participating Banks

3. Except as ADB may otherwise agree, the Borrower shall ensure that each Participating Bank shall: (i) be selected by MOF in accordance with the following criteria, as agreed with ADB, from time to time, and (ii) continue to meet such criteria throughout the implementation of the Project:

- (a) Unless otherwise required by the BOM, the Participating Bank shall meet the following BOM's prudential requirements:
 - (i) its risk weighted capital adequacy ratio is not less than 12%;
 - (ii) its capital adequacy tier 1 ratio is not less than 9%;
 - (iii) its credit concentration to a single borrower and its related parties on aggregate basis is not more than 20% of its capital;
 - (iv) its credit concentration to (a) its shareholders, bank staff, and their related parties on aggregate basis is not more than 20% of its capital; and (b) any single shareholder or bank staff is not more than 5% of its capital;
 - (v) its single currency open position is approximately 15% and total currency open position is approximately 40%;
 - (vi) its non-current assets to net assets ratio is not more than 8%; and
 - (vii) its liquidity ratio is not less than 25%.

- (b) The Participating Bank shall meet the following financial requirements:
 - (i) its tangible net worth is not less than ten million United States dollars (US\$10,000,000);
 - (ii) its loan provisions ratio is not less than 50%; and
 - (iii) its non-performing loan is not more than 8%; and
- (c) the Participating Bank has adequate staff for the management of funds made available under the Project.

Onlending Agreements

4. Except as ADB may otherwise agree, the Borrower shall ensure that each Onlending Agreement includes the following terms and conditions:
- (a) the Participating Bank shall ensure that each Subloan shall carry interest at an appropriate rate, but not less than the interest rate under ADB loans from its ordinary capital resources, and shall be made on terms whereby the Participating Bank shall obtain, by a written agreement with the Participating Enterprise, rights adequate to protect the interests of the Borrower, the Participating Bank and ADB; and
 - (b) the amortization schedule applicable to each Subloan shall not extend beyond 7 years, including a grace period not exceeding 3 years, from the date of approval of such Subloan.

Subloan Agreements

5. The Borrower shall cause each Participating Bank to ensure that in addition to any other provisions that a prudent lender would request, each Subloan Agreement shall include provisions to the effect that:
- (a) the Participating Enterprise shall carry out and operate the Subproject with due diligence and efficiency and in accordance with sound administrative, financial, business, social and environmental practices, including maintenance of adequate accounts and records;
 - (b) the proceeds of the Subloan shall be used only for procurement in eligible source countries as specified by ADB, in accordance with procedures acceptable to ADB;
 - (c) the Goods, Works and Consulting Services to be financed out of the proceeds of the Subloan shall be used exclusively in the carrying out of the Subproject in accordance with the investment plan;

- (d) ADB, the Borrower and the Participating Bank shall each have the right to inspect such Goods and Works, the Participating Enterprise, the Subproject and any relevant records and documents;
- (e) ADB, the Borrower and the Participating Bank shall each be entitled to obtain all such information as each shall reasonably request relating to the Subloan, the Goods, Works and Consulting Services financed out of the proceeds of the Subloan, the Subproject, the Participating Enterprise and other related matters;
- (f) within 18 months of the first disbursement to each Participating Enterprise, such Participating Enterprise shall produce annual financial statements certified by independent auditors whose qualifications, experience and terms of reference are acceptable to the Borrower in accordance with national standards for accounting acceptable to the Borrower;
- (g) the Participating Enterprise shall ensure that the preparation, design, construction, implementation, operation and decommissioning of the Subproject complies with (i) all applicable laws and regulations of the Borrower relating to environment, health, and safety; (ii) the Environmental Safeguards; and (iii) all measures and requirements set forth in the IEE and the EMP;
- (h) the Participating Enterprise shall ensure that the Subproject does not have any involuntary resettlement impact, all within the meaning of the Safeguard Policy Statement;
- (i) the Participating Enterprise shall ensure that the preparation, design, construction, implementation and operation of the Subproject complies with (i) all applicable laws and regulations of the Borrower relating to indigenous peoples; (ii) the Indigenous Peoples Safeguards; and (iii) all measures and requirements set forth in the EMDP (if applicable);
- (j) the Participating Enterprise shall make available necessary budgetary and human resources to fully implement the EMP and the EMDP (if applicable);
- (k) the Participating Enterprise shall ensure that all bidding documents and contracts for Works contain provisions that require contractors to:
 - (i) comply with the measures relevant to the contractor as set forth in the IEE, EMP and EMDP (if any), (to the extent they concern impacts on affected people during construction);

- (ii) make available a budget for all such environmental and social measures; and
 - (iii) provide the Borrower with a written notice of any unanticipated environmental or indigenous peoples risks or impacts that arise during construction, implementation or operation of the Subproject that were not considered in the IEE, EMP and the EMDP (if applicable); and
- (l) the Participating Bank shall be entitled to suspend or terminate further access by the Participating Enterprise to the use of the proceeds of the Subloan upon failure by the Participating Enterprise to perform its obligations under the Subloan Agreement.

Environment

6. The Borrower shall ensure that the preparation, design, construction, implementation, operation and decommissioning of the Project, each Subproject and all Project facilities comply with (a) all applicable laws and regulations of the Borrower relating to environment, health, and safety; (b) the Environmental Safeguards; (c) the EARF; and (d) all measures and requirements set forth in the respective IEE and EMP, and any corrective or preventative actions (i) set forth in a Safeguards Monitoring Report, or (ii) which are subsequently agreed between ADB and the Borrower.

Land Acquisition and Involuntary Resettlement

7. The Borrower shall ensure that the Project does not have any involuntary resettlement impact, all within the meaning of the Safeguard Policy Statement. The Borrower shall screen all Subprojects to ensure that no Subproject which meets category A or B resettlement criteria set out in the Safeguard Policy Statement is financed under the Project.

Ethnic Minority

8. The Borrower shall ensure that the preparation, design, construction, implementation and operation of the Project, each Subproject and all Project facilities comply with (a) all applicable laws and regulations of the Borrower relating to ethnic minority; (b) the Indigenous Peoples Safeguards; (c) the EMPF; and (d) all measures and requirements set forth in the respective EMDP (if any), and any corrective or preventative actions (i) set forth in a Safeguards Monitoring Report, or (ii) subsequently agreed between ADB and the Borrower.

Human and Financial Resources to Implement Safeguards Requirements

9. The Borrower shall make available necessary budgetary and human resources to fully implement each EMP and EMDP (if any).

Safeguards–Related Provisions in Bidding Documents and Works Contracts

10. The Borrower shall ensure that all bidding documents and contracts for Works contain provisions that require contractors to:

- (a) comply with the measures relevant to the contractor set forth in each IEE, EMP and EMDP (if any), (to the extent they concern impacts on the respective affected people under the Environmental Safeguards and the Indigenous Peoples Safeguards during construction), and any corrective or preventative actions (i) set forth in a Safeguards Monitoring Report, or (ii) subsequently agreed between ADB and the Borrower;
- (b) make available a budget for all such environmental and social measures; and
- (c) provide the Borrower with a written notice of any unanticipated environmental or social safeguard risks or impacts that arise during construction, implementation or operation of the Project that were not considered in the relevant IEE, EMP and EMDP (if any).

Safeguards Monitoring and Reporting

11. The Borrower shall do the following:

- (a) Submit Safeguards Monitoring Reports to ADB
 - (i) in respect of implementation of and compliance with Environmental Safeguards and the EMPs annually during construction and the implementation of the Project and the EMPs, until the issuance of ADB's Project completion report unless a longer period is agreed in the EMPs; and
 - (ii) in respect of implementation of and compliance with Indigenous Peoples Safeguards and the EMDPs (if any), semi-annually during the implementation of the Project and the EMDPs (if any), until the issuance of ADB's Project completion report unless a longer period is agreed in the EMDPs (if any);

and disclose relevant information from such reports to the respective affected people under the Environmental Safeguards and the Indigenous Peoples Safeguards promptly upon submission;

- (b) if any unanticipated environmental and/or social risks and impacts arise during construction, implementation or operation of the Project that were not considered in each IEE, EMP and EMDP (if any), promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan; and
- (c) report any actual or potential breach of compliance with the measures and requirements set forth in an EMP or EMDP (if any), promptly after becoming aware of the breach.

Gender and Social Development

12. The Borrower shall ensure that (a) the GAP is implemented in accordance with its terms; (b) the bidding documents and contracts include relevant provisions for contractors to comply with the measures set forth in the GAP; (c) adequate resources are allocated for the implementation of the GAP; (d) the targets under the GAP are achieved in a timely manner, including, but not limited to: (i) at least 40% of new jobs created under the Project are for women; (ii) 40% of herders' production capacity training is for women; and (iii) 40% of training of the Participating Banks and the Participating Enterprises is for women; (e) progress on implementation of the GAP, including progress towards achieving key gender targets is regularly monitored and reported to ADB annually; and (f) each Onlending Agreement and each Subloan Agreement include relevant provisions as specified in the GAP.

Labor Standards, Health and Safety

13. The Borrower shall ensure that the national labor standards and the Borrower's applicable laws and regulations are complied with during Project implementation. The Borrower shall include specific provisions in the bidding documents and contracts financed by ADB under the Project requiring that the contractors, among other things: (a) comply with the Borrower's applicable labor law and regulations and incorporate applicable workplace occupational safety norms; (b) do not use child labor; (c) do not discriminate workers in respect of employment and occupation; (d) do not use forced labor; (e) allow freedom of association and effectively recognize the right to collective bargaining; and (f) disseminate, or engage appropriate service providers to disseminate information on the risks of sexually transmitted diseases, including HIV/AIDS, to the employees of contractors engaged under the Project and to members of the local communities surrounding the Project area, particularly women.

14. The Borrower shall strictly monitor compliance with the requirements set forth in paragraph 13 above and provide ADB with regular reports.

Prohibited List of Investments

15. The Borrower shall ensure that no proceeds of the Loan are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the Safeguard Policy Statement.

Grievance Redress Mechanism

16. The Borrower shall ensure that a joint safeguards grievance redress mechanism acceptable to ADB is established in accordance with the provisions of the IEEs, EMPs and EMDPs (if any) at the PMU, within the timeframes specified in the relevant IEEs, EMPs and EMDPs (if any), to consider safeguards complaints.

17. The grievance redress mechanism referred to in paragraph 16 herein above shall function to (a) review and document eligible complaints of Project stakeholders; (b) proactively address grievances; (c) provide the complainants with notice of the chosen mechanism and/or action; and (d) prepare and make available to ADB upon request periodic

reports to summarize (i) the number of complaints received and resolved; (ii) chosen actions; and (iii) final outcomes of the grievances and make these reports available to ADB upon request.

Governance and Anticorruption

18. The Borrower, the Project Executing Agency and the Project Implementing Agencies shall (a) ensure that the Loan proceeds are utilized effectively and efficiently to implement the Project and to achieve the objectives of the Project; (b) create and sustain a corruption-free environment; (c) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project; and (d) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation, including access to all relevant books and records, as well as engagement of independent experts that may be needed for satisfactory completion of such investigations. All external costs related to the investigations shall be funded from the Loan proceeds.

19. The Borrower, the Project Executing Agency and the Project Implementing Agencies shall ensure that the anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the Project Executing Agency and the Project Implementing Agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Project.