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GRANT NUMBER 0138-MON(SF)

GRANT AGREEMENT  
(Special Operations)  
(Food and Nutrition Social Welfare Program)

between

MONGOLIA

and

ASIAN DEVELOPMENT BANK

DATED 17 DECEMBER 2008

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LPS:MON 42322

## **GRANT AGREEMENT (Special Operations)**

GRANT AGREEMENT dated 17 December 2008 between MONGOLIA (the "Recipient") and ASIAN DEVELOPMENT BANK ("ADB").

### **WHEREAS**

(A) ADB has received from the Recipient a development policy letter dated 14 November 2008 (hereinafter called the "Policy Letter"), setting forth certain objectives, policies and actions, described in Schedule 1 to this Grant Agreement, designed to develop the Recipient's social welfare sector (the "Program");

(B) by an agreement of even date herewith between the Recipient and ADB (hereinafter called the "Project Grant Agreement"), ADB has agreed to make a grant to the Recipient from ADB's Special Funds resources in the amount of three million dollars (\$3,000,000) for the purposes of the Food and Nutrition Social Welfare Project;

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

(D) ADB has, on the basis inter alia of the foregoing, agreed to provide a 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 the 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, subject, however, to the following modifications:

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

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

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

- (c) Section 2.01(17) 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 Grant Agreement.

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

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

(a) Subject to any conditions or restrictions specified in the Grant Agreement, the Recipient 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 Grant Agreement.

Section 1.02. The terms defined in the Grant Regulations are incorporated into this Grant Agreement, unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) "Approach 1" means the first targeting approach for FSP under the Program as described in paragraph 1 of Schedule 1 to this Grant Agreement;

(b) "Approach 2" means the second targeting approach for pilot testing of FSP under the Program as described in paragraph 1 of Schedule 1 to this Grant Agreement;

(c) "Approach 3" means the third and final targeting approach for pilot testing of FSP under the Program as described in paragraph 1 of Schedule 1 to this Grant Agreement;

(d) "Counterpart Funds" means the Togrog proceeds accruing to the Recipient and generated from the Grant proceeds under the Program and referred to in paragraph 9 of Schedule 4 to this Grant Agreement;

(e) "Deposit Account" means the account referred to in paragraph 4 of Schedule 2 to this Grant Agreement;

(f) "Eligible Items" means the goods imported under the Program (except those specifically excluded pursuant to Attachment 1 to Schedule 2 to this Grant Agreement), the costs of which are eligible for financing out of the proceeds of the Grant;

(g) "FSOU" means the Food Stamp Operating Unit as described further in paragraph 4 of Schedule 4 to this Grant Agreement;

(h) "FSP" means the targeted food stamp program to be further developed and implemented under the Program;

(i) "FY" means the fiscal year of the Recipient which ends on 31 December;

(j) "MOF" means the Ministry of Finance of the Recipient or any successor thereto acceptable to ADB;

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

(l) "PIU" means the Program Implementation Unit as described further in paragraph 3 of Schedule 4 to this Grant Agreement;

(m) "Policy Actions" means the actions set forth in Schedule 5 to this Grant Agreement to be complied with to the satisfaction of ADB as a special condition for effectiveness of this Grant Agreement;

(n) "Policy Matrix" means the policy matrix as referred to in the Policy Letter and agreed between the Recipient and ADB, and which sets out inter alia the Policy Actions for the Program as set forth in Schedule 5 of this Grant Agreement;

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

(p) "Togrogs" means togrogs in the currency of the Recipient.

## **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 Grant Agreement an amount of nine million Dollars (\$9,000,000).

## **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 Program in accordance with the provisions of this Grant Agreement.

Section 3.02. 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 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 Eligible Items 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 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. The Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 30 June 2009 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 Program, 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 maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Grant and to record the progress of the Program.

(b) The Recipient 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 6.04 of the Grant Regulations, the Recipient 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 6.04 of the Grant Regulations, the Recipient 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 and Cancellation**

Section 5.01. The following is specified as an additional event for suspension of the right of the Recipient to make withdrawals from the Grant Account for the purposes of Section 8.01(k) of the Grant Regulations or cancellation of the Grant pursuant to Section 8.02 of the Grant Regulations: the Recipient shall have failed to perform any of its obligations under the Project Grant Agreement.

## **ARTICLE VI**

### **Effectiveness**

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

- (i) the Policy Actions shall have been carried out to the satisfaction of ADB;
- (ii) a PIU acceptable to ADB shall have been established pursuant to a joint MOF and MSWL ministerial order;
- (iii) an FSOU within MSWL and acceptable to ADB shall have been established with the task manager, targeting specialist, payment specialist and management and information systems specialist recruited; and
- (iv) the Project Grant Agreement shall have been duly executed and delivered on behalf of the Recipient, and all conditions precedent to its effectiveness (other than a condition requiring the effectiveness of this Grant Agreement) shall have been fulfilled.

Section 6.02. 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 VII****Miscellaneous**

Section 7.01. 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 7.02. The following addresses are specified for the purposes of Section 11.01 of the Grant Regulations:

**For Mongolia**

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

Facsimile Number:

(976-11) 262-272

**For ADB**

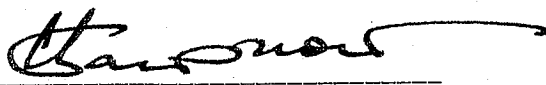
Asian Development Bank  
P.O. Box 789  
0980 Manila, Philippines

Facsimile Numbers:

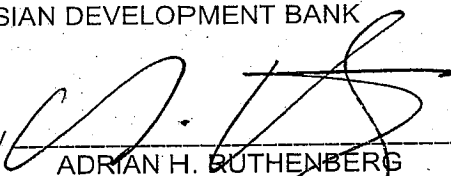
(632) 636-2444  
(632) 636-2407.

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

ASIAN DEVELOPMENT BANK

By   
ADRIAN H. RUTHENBERG  
Country Director  
Mongolia Resident Mission



## SCHEDULE 1

### Description of the Program

1. The principal objective of the Program is improved access to food by vulnerable and poor households through a targeted FSP and strengthened social welfare systems. The Program will include use of an innovative targeting strategy and approach to distribute food stamps following a household assessment of the poorest and most eligible for assistance, and incremental expansion of the pilot testing on a nationwide basis. The targeting approach will be comprised of the following three incremental approaches:

- (i) Under Approach 1, food stamps will be distributed as an emergency measure to about 30,000 disabled and elderly beneficiaries identified in the social welfare laws and regulations of the Recipient;
- (ii) under Approach 2, pilot testing will involve assessment of socio-economic status to determine about 20,000 initial beneficiaries in selected sample areas in and around Ulaanbaatar. Such beneficiaries will be different from those under Approach 1; and
- (iii) under Approach 3, pilot testing of geographical areas in or around Ulaanbaatar and not covered by Approach 2 will be carried out through a survey and household assessment to reach about 10,000 beneficiaries in selected areas, and to be followed by incremental expansion nationwide.

The Program is described in more detail in the Policy Letter. The Program will be implemented during the period up to 31 December 2011.

2. In support of the Program:

- (a) the proceeds of the Grant shall be used to finance the costs of Eligible Items; and
- (b) 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 9 of Schedule 4 to this Grant Agreement.

3. The proceeds of the Grant are expected to be utilized by 30 June 2009.

## SCHEDULE 2

### 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 grants or loans made by ADB.

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

(b) Such withdrawal application shall be accompanied by a certificate of the Recipient confirming that with respect to the year during which the proceeds of the Grant are expected to be disbursed, the value of the Eligible Imports is expected to be equal to or greater than the amount of the Grant expected to be disbursed during such year.

(c) For the purposes of this paragraph, the term "Eligible Imports" means the total imports of the Recipient 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 or grants made by ADB.

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

4. (a) Prior to submitting the application to ADB for withdrawal from the Grant Account, the Recipient shall nominate an account (the Deposit Account) at the Bank of Mongolia into which all withdrawals from the Grant Account shall be deposited. The 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 Deposit Account shall be maintained in accordance with consistently maintained sound accounting principles. Upon ADB's request, the Recipient shall have the 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

Schedule 2

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 Recipient shall submit trade statistics and any other information as ADB may require from time to time to assess the Recipient's compliance with the formula for determining Eligible Imports.

5. The Grant proceeds shall be disbursed in a single tranche upon effectiveness of this Grant Agreement, provided that sufficient progress has been achieved by the Recipient in the carrying out of the Program and that there has been no action by the Recipient which materially reverses the objectives of the Program.

**Negative List**

1. Grant proceeds will finance the foreign currency expenditures for the reasonable cost of imported goods required during the 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 Recipient:

**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 Recipient or of goods supplied from the territory of the Recipient;
- (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 Recipient or international agreements to which the Recipient is a party; and
- (vii) expenditures on account of any payment prohibited by the Recipient in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

**SCHEDULE 3****Provisions on 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 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 Recipient'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 4

### Program Implementation and Other Matters

#### Program Implementation Arrangements

1. The Recipient shall ensure that MOF is appointed as the Program Executing Agency to be responsible for the overall implementation of the Program, including coordinating the implementation of policy actions by various departments, Program administration, disbursements, and maintenance of Program records. The Recipient shall also ensure that MSWL is the implementing agency for the Program and is the primary responsible agency for delivering the expected results of the Program.
  
2. A multisectoral Steering Committee composed of senior level officials of (i) MOF, (ii) MSWL, with such official serving as the vice chair, (iii) Ministry of Health, (iv) Ministry of Food and Agriculture, (v) National Statistics Office, (vi) Mongolian Employers Federation, (vii) Association of Elderly Persons, (viii) the agencies responsible for the distribution of food stamps, (ix) UNICEF, (x) a non-governmental organization engaged in food security programs, and (xi) ADB as observer, shall be established and shall meet quarterly to provide policy and strategic guidance to the Program. The Steering Committee shall be chaired by the head of the subprogram to the Food II Plan of the Recipient. An English language version of the minutes of Steering Committee meetings shall be forwarded to ADB on a quarterly basis.
  
3. The Recipient shall ensure that a PIU with contracted staff is established within MSWL to facilitate administrative, financial, and procurement matters, and serve as the secretariat to the Steering Committee. The PIU shall closely consult with relevant ministries, agencies, and international partners. The PIU shall be headed by a qualified manager selected on a competitive basis. The PIU shall also include an administration and finance officer, secretary, and driver for the entire implementation period of the Program.
  
4. The Recipient shall ensure that an FSOU is established within MSWL and under the PIU to (i) provide the technical requirements for operating an FSP; (ii) augment the capacity of the Government to immediately undertake preparatory activities necessary for delivering food stamps such as proper targeting of the poor, quality printing and reproduction of the stamps, timely and orderly delivery of the stamps to the beneficiaries, and proper contracting with the key operators in the system (i.e., post offices, banks, printers and shopkeepers); (iii) provide technical assistance to MSWL and personnel from the Labor and Social Welfare Office at the district/*aimag* and *soum/khoroos* levels; (iv) provide troubleshooting assistance in the event problems arise; and (v) provide technical support to consultants to be deployed under the Project.

#### Continuity and Coordination of Reforms

5. The Recipient shall carry out the policies and actions in accordance with the schedule of reforms in the Policy Matrix and ensure that the reforms are sustained for and beyond the duration of the Program period; and (b) carry out its obligations as stipulated in this Schedule in a timely manner.

Policy Dialogue

6. The Recipient shall keep ADB informed of, and the Recipient and ADB shall from time to time exchange views on, the progress made in carrying out the Program.
7. The Recipient shall engage in policy dialogue with ADB, in a timely manner, on problems and constraints encountered during Program implementation and on appropriate measures to overcome or mitigate such problems and constraints.
8. The Recipient shall keep ADB informed of policy discussions with other multilateral or bilateral agencies that have implications for implementation of the Program, and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Recipient shall, take ADB's views into consideration before finalizing and implementing any such proposals.

Counterpart Funds

9. The Recipient shall ensure that the Counterpart Funds are provided as budgetary allocations to MSWL to meet the local currency costs relating to implementation of FSP.

Program Review

10. The Recipient shall ensure that (i) the pilot testing of Approach 2 and Approach 3 are concurrently evaluated by 30 June 2010, and (ii) the household assessment survey instruments are refined based on the results of such pilot testing. The Recipient shall ensure that the refined survey instruments and lessons learned from Approach 2 and Approach 3 are incorporated in the final design and are applied to about 50,000 beneficiaries in 2010 and an additional 20,000 beneficiaries in 2011. The Recipient and ADB shall also undertake a midterm review of the Program within eighteen (18) months of commencement of Program implementation. Such midterm review shall focus on (i) Program impacts, (ii) implementation progress, (iii) and the need for any adjustments in Program targeting approaches and implementation arrangements to ensure full achievement of the expected Program outcome and outputs.

## **SCHEDULE 5**

### **Policy Actions**

In order for the Grant proceeds to be released, the following Policy Actions shall have been complied with to the satisfaction of ADB:

1. The Recipient shall have caused the Government to have approved the subprogram to the Food II Plan in support of vulnerable groups and the poor through a decree issued by the Government.
2. The Recipient shall have caused a steering committee, as an interministerial coordination mechanism to address the social implications of soaring food prices, to have been established, and terms of reference for such committee to have been prepared.
3. The Recipient shall have caused the Government to have approved pilot testing of FSP, including development and implementation of an outreach targeting methodology based on a household assessment tool for at least two groups: (i) the elderly and disabled and (ii) the urban and rural poor in selected poverty areas.
4. The Recipient shall have caused a monitoring and evaluation system for FSP, including external monitoring, to have been initiated.
5. The Recipient shall have caused the Government to have allocated sufficient budgetary resources for FSP to ensure financial sustainability: (i) for FY 2008, a supplementary allocation of at least Togrogs 80,000,000 in the amended FY 2008 budget, and (ii) for FY 2009, at least Togrogs 10,000,000,000 in the FY 2009 budget.