

EBS/01/166
Supplement 2

CONFIDENTIAL

October 1, 2001

To: Members of the Executive Board

From: The Secretary

Subject: **Mongolia—Poverty Reduction and Growth Facility—Three-Year Arrangement**

Attached for the records of Executive Directors is the text of the three-year arrangement under the Poverty Reduction and Growth Facility for Mongolia as agreed at Executive Board Meeting 01/101 (9/28/01).

Att: (1)

Other Distribution:
Department Heads

Mongolia—Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Attached hereto* is a letter (“the Letter”) dated September 11, 2001, with an annexed Memorandum of Economic and Financial Policies for August 2001-July 2002 (the “Memorandum”) and a Technical Memorandum of Understanding (the “Technical Memorandum”), from the Minister of Finance and Economy and the Governor of the Bank of Mongolia requesting from the International Monetary Fund as Trustee of the Poverty Reduction and Growth Facility Trust (“the Trustee”) a three-year arrangement under the Poverty Reduction and Growth Facility, and setting forth:

- (a) the objectives and policies of the program that the authorities of Mongolia intend to pursue during the three-year period of the arrangement;
- (b) the objectives, policies and measures that the authorities of Mongolia intend to pursue during the first year of the arrangement; and
- (c) understandings of Mongolia with the Trustee regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Mongolia will pursue for the second and third years of the arrangement.

To support these objectives and policies, the Trustee grants the requested three-year arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the Poverty Reduction and Growth Facility Trust.

1. (a) For a period of three years from September 28, 2001, Mongolia will have the right to obtain loan disbursements from the Trustee in a total amount equivalent to SDR 28.49 million, subject to the availability of resources in the Poverty Reduction and Growth Facility Trust.

(b) Disbursements under this arrangement shall not exceed the equivalent of SDR 12.21 million until September 28, 2002 and the equivalent of SDR 20.35 million until September 28, 2003.

(c) During the first year of the arrangement:

- (i) the first disbursement, in an amount equivalent to SDR 4.07 million, will be available, upon approval of this arrangement, at the request of Mongolia;

*See EBS/01/166 (9/18/01)

- (ii) the second disbursement, in an amount equivalent to SDR 4.07 million, will be available on or after March 15, 2002, at the request of Mongolia and subject to paragraph 2 below; and
- (iii) the third disbursement, in an amount equivalent to SDR 4.07 million, will be available on or after September 15, 2002, at the request of Mongolia and subject to paragraph 2 below; and

(d) The right of Mongolia to request disbursements during the second and third years of this arrangement shall be subject to such phasing and conditions as shall be determined. The phasing of, and conditions for, disbursements during the second year of this arrangement shall be determined in the context of a review of Mongolia's program with the Trustee, the timing of which shall be established at the first review contemplated in paragraph 2 (c) of this arrangement.

2. Mongolia will not request:

I. the second and third disbursements specified in paragraph 1(c)(ii) and 1(c)(iii) above:

(a) If the Managing Director of the Trustee finds that, with respect to the second disbursement, the data as of December 31, 2001 and, with respect to the third disbursement, the data as of June 30, 2002, indicate that:

- (i) the limit on the net bank credit to the general government, or
- (ii) the limit on the net domestic assets of the Bank of Mongolia, or
- (iii) the floor on the net international reserves of the Bank of Mongolia, or
- (iv) the ceiling on contracting or guaranteeing by the government or the Bank of Mongolia of new non-concessional external debt with a maturity of one to twelve years, or
- (v) the ceiling on contracting or guaranteeing by the government or the Bank of Mongolia of new non-concessional external debt with a maturity of less than one year, or
- (vi) the limit on the stock of outstanding external payments arrears,

referred to in the Technical Memorandum and specified in Table 1 of the Memorandum, was not observed; or

(b) If the Managing Director of the Trustee finds:

(i) with respect to the second disbursement, that Mongolia has not carried out its intentions with respect to the parliamentary approval of amendment to the Budget law to clarify and strengthen the accountability of local government officials by December 31, 2001, as specified in paragraph 24 and Table 3 of the Memorandum, or

(ii) with respect to the second disbursement, that Mongolia has not carried out its intentions with respect to the parliamentary approval of the draft law to centralize the proceeds from VAT collected at all levels of government and assign a fixed percentage of VAT receipts to the local government sector as a whole by December 31, 2001, as specified in paragraph 29 and Table 3 of the Memorandum, or

(iii) with respect to the second disbursement, that Mongolia has not carried out its intentions with respect to the completion of the transfer of all pilot entities' deposits to the Treasury Single Account, the adoption of a Cabinet resolution to extend the Treasury Single Account to all line ministries and Ulaanbaatar City and to close all their off-budget accounts, and the initiation of the transfer of the remaining central government deposits to the Treasury Single Account by December 31, 2001, as specified in paragraph 25 and Table 3 of the Memorandum, or

(iv) with respect to the second disbursement, that Mongolia has not carried out its intentions with respect to the parliamentary approval of the 2002 Budget in line with the macroeconomic framework agreed with Fund staff, including adequate allocations for a continuing reduction of arrears and expenditure saving reforms and a wage and employment policy consistent with the maintenance of current spending within the agreed envelope, by December 31, 2001, as specified in paragraph 30 and Table 3 of the Memorandum, or

(v) with respect to the third disbursement, that Mongolia has not carried out its intentions with respect to the requirement that local governments adopt the same reporting standards on bank accounts as the central government and provide monthly reports on their account balances by April 30, 2002, as specified in Table 3 of the Memorandum; or

(c) Until the Trustee has determined, with regard to the second disbursement, that the first review of Mongolia's program scheduled for completion on March 31, 2002 and referred to in paragraph 2 of the Letter has been completed and, with regard to the third disbursement, that the second review of Mongolia's program, the timing of which will be determined at the first review referred to in paragraph 2 of the Letter, has been completed.

II. any disbursement under this arrangement,

(a) if, at any time during this arrangement, Mongolia accumulates any new external payment arrears as specified in Table 1 of the Memorandum, or

(b) if, at any time during this arrangement, Mongolia accumulates any domestic interest arrears, as specified in Table 1 of the Memorandum; or

(c) if Mongolia has:

- (i) imposed or intensified restrictions on payments and transfers for current international transactions, or
- (ii) introduced or modified multiple currency practices, or
- (iii) concluded bilateral payments agreements that are inconsistent with Article VIII, or
- (iv) imposed or intensified import restrictions for balance of payments reasons.

When Mongolia is prevented from requesting disbursements under this arrangement because of this paragraph 2, such disbursements may be made available only after consultation has taken place between the Trustee and Mongolia and understandings have been reached regarding the circumstances in which Mongolia may request the disbursements.

3. In accordance with paragraph 3 of the Letter, Mongolia will provide the Trustee with such information as the Trustee requests in connection with the progress of Mongolia in implementing the policies and reaching the objectives of the program supported by this arrangement.

4. In accordance with paragraph 3 of the Letter, during the period of this arrangement, Mongolia shall consult with the Trustee on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director of the Trustee requests such a consultation. Moreover, after the period of this arrangement and while Mongolia has outstanding financial obligations to the Trustee arising from loan disbursements under this arrangement, Mongolia will consult with the Trustee from time to time, at the initiative of the Government or whenever the Managing Director of the Trustee requests consultation on Mongolia's economic and financial policies. These consultations may include correspondence and visits of officials of the Trustee to Mongolia or of representatives of Mongolia to the Trustee.