



Concept Note

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Proposed Programmatic Approach and Policy- Based Loan for Subprogram 1 Mongolia: Accelerating Climate Investment Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 8 January 2024)

Currency unit	–	togrog (MNT)
MNT1.00	=	\$0.0002929
\$1.00	=	MNT3,413.70

ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
GDP	–	gross domestic product
GHG	–	greenhouse gas
IMF	–	International Monetary Fund
MOF	–	Ministry of Finance
NAP	–	national adaptation plan
NDC	–	Nationally Determined Contribution
SDG	–	Sustainable Development Goal
TA	–	technical assistance

NOTE

In this report, "\$" refers to United States dollars.

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PROGRAM AT A GLANCE

1. Project Data			
Project number	56270-001	Project name	Accelerating Climate Investment Program, Subprogram 1
Country	Mongolia	Executing or implementing agency	Ministry of Finance (formerly Ministry of Finance and Economy)
Borrower	Mongolia	Geographical location	Country
Sector office	Finance Sector Office	Subsector	Finance sector development
Sector	Finance	Portfolio at a Glance	https://www.adb.org/Documents/LinkeDDocs/?id=56270-001-PortAtaGlance
Country economic indicators	https://www.adb.org/Documents/LinkeDDocs/?id=56270-001-CEI	Sustainable Development Goals	SDG 2.4 SDG 5.1 SDG 7.2 SDG 8.10 SDG 13.2, 13.3, 13.a SDG 16.6 SDG 17.1, 17.17
Operational priorities	OP1: Addressing remaining poverty and reducing inequalities OP2: Accelerating progress in gender equality OP3: Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability OP5: Promoting rural development and food security OP6: Strengthening governance and institutional capacity		
Lending modality	Stand-Alone Policy-Based Lending (Loan)		
2. Financing			
ADB Financing		Amount (\$ million)	
Regular ordinary capital resources loan		100.00	
Cofinancing		Amount (\$ million)	
None		0.00	
Counterpart		Amount (\$ million)	
None		0.00	
Total		100.00	
ADB Climate Financing			
ADB			
Adaptation		50.00	
Mitigation		50.00	
Cofinancing			
Adaptation		0.00	
Mitigation		0.00	
Total		100.00	
Currency of ADB Financing: US Dollar			
3. Climate Change			
Absolute GHG emissions (tCO ₂ e per year)		0	
Relative GHG emissions (tCO ₂ e per year)		0	
Climate change risk on the project without adaptation measures		Low	
4. Private Sector Development			
Private capital mobilized (\$):			
5. Safeguards			
Category	Environment:	<input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI	
	Involuntary resettlement:	<input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI	

	Indigenous peoples:	<input type="checkbox"/> A	<input type="checkbox"/> B	<input checked="" type="checkbox"/> C	<input type="checkbox"/> FI
6. Gender Equality					
Category	<input type="checkbox"/> GEN (gender equity theme)	<input checked="" type="checkbox"/> EGM (effective gender mainstreaming)			
	<input type="checkbox"/> SGE (some gender elements)	<input type="checkbox"/> NGE (no gender elements)			
7. Poverty Targeting					
Category	<input type="checkbox"/> General intervention	<input type="checkbox"/> Individual or household (TI-H)			
	<input checked="" type="checkbox"/> Geographic (TI-G)				

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PROGRAM CONCEPT NOTE

1. Program Overview			
Program number	56270-001	Program name	Accelerating Climate Investment Program, Subprogram 1
Country and borrower	Mongolia	Sector office	Finance Sector Office
Modality	Policy-based lending	Policy-based lending type or financing option	Programmatic approach
2. The Proposal			
Program description	<p>The proposed Accelerating Climate Investment Program will assist the Government of Mongolia to accelerate and sustain investments in climate action to enable its transition to a low-emission, productive, and inclusive green economy.^a The program aims to strengthen planning and financing systems and institutional linkages for climate action; mobilize and manage climate finance; and enhance investment pathways for key sectors toward a low-carbon and climate-resilient economy in Mongolia. The program will contribute to the implementation of Mongolia's national climate policies and action plan, including its Nationally Determined Contributions (NDCs).^b</p> <p>The program is aligned with four operational priorities of Strategy 2030 of the Asian Development Bank (ADB): (i) tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability; (ii) accelerating progress in gender equality; (iii) promoting rural development and food security; and (iv) strengthening governance and institutional capacity.^c It will support strategic priority 3 of the ADB country partnership strategy for Mongolia, 2021–2024 on resilience for sustainable, green, and climate-conscious development.^d The program is consistent with the ADB Climate Change Action Plan, 2023–2030^e through advancing low-carbon and climate-resilient solutions, in particular by facilitating climate-smart investments, supporting inclusive development, and promoting gender-responsive actions, in line with the Paris Agreement, the Sustainable Development Goals (SDGs), and the Sendai Framework for Disaster Risk Reduction.^f</p>		
	<p>^a Government of Mongolia, State Great Hural. 2020. “Vision-2050” Long-Term Development Policy of Mongolia. Annex 1 to Resolution 52, 2020. Ulaanbaatar.</p> <p>^b Government of Mongolia. 2020. Updated Mongolia’s Nationally Determined Contribution (NDC). Ulaanbaatar. Commitments made in the updated NDC are also reflected in existing national development policies and strategies, including the following: (i) Government of Mongolia, State Great Hural. New Recovery Policy (2021); (ii) Government of Mongolia. 2020. “Vision-2050” Long-Term Development Policy of Mongolia. Annex 1 to Resolution 52, 2020. Ulaanbaatar; Government of Mongolia, State Great Hural. 2016. Sustainable Development Vision 2030. Ulaanbaatar; Government of Mongolia, Ministry of Environment, Green Development and Tourism. 2014. Action Plan, Green Development Policy. Ulaanbaatar; Government of Mongolia, State Great Hural. 2011. 6. National Action Program on Climate Change (2011). Ulaanbaatar; Mongolian Parliament Resolution, No. 36, Measures to strengthen food security and other sector policies.</p> <p>^c ADB. 2018. Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific. Manila; and ADB. 2019. Strategy 2030 Operational Plan for Priority 3: Tackling Climate Change, Building Climate and Disaster Resilience, and Enhancing Environmental Sustainability, 2019–2024. Manila.</p> <p>^d ADB. 2021. Country Partnership Strategy: Mongolia, 2021–2024—Laying Resilient Foundations for Inclusive and Sustainable Growth. Manila.</p> <p>^e ADB. 2023. Climate Change Action Plan 2023-2030. Manila.</p> <p>^f United Nations Framework Convention on Climate Change. 2015. Paris Agreement. Paris; United Nations. Transforming our world: the 2030 Agenda for Sustainable Development; United Nations Office for Disaster Risk Reduction. 2015. Sendai Framework for Disaster Risk Reduction, 2015–2030. Geneva.</p>		
Choice of modality	<p>The proposed modality is a programmatic approach to policy-based lending that will enable sequenced and sustained support to (i) deliver longer-term institutional and policy reforms necessary for Mongolia to effectively implement climate action, (ii) create an enabling environment that will accelerate and sustain climate investments, and (iii) strengthen ADB's engagement on climate through the 2025-2028 country partnership strategy for Mongolia. Subprogram 1 sets out the framework for the program and underpinning policy actions. Subprogram 2 actions are defined in an indicative manner, allowing for their enhancement over time, but are aligned with the overall program objectives. A post-program partnership</p>		

	framework agreed between ADB and the government will be established at the completion of subprogram 2 to continue a structured policy dialogue on climate action and the reform progress, and to ascertain the need for a potential third subprogram.
3. Program Rationale	
Background and development constraints	<p>Favorable macroeconomic conditions and outlook. Mongolia's economy expanded by 5.0% in 2022 and by 6.9% over the first three quarters of 2023, after weak gross domestic product (GDP) growth of 1.6% in 2021 and a 4.6% contraction in 2020 because of the coronavirus disease (COVID-19) pandemic.^g Recovery has mainly been attributed to the reopening of the economy of the People's Republic of China, strong external demand, recoveries in coal production and merchandise exports, a successful refinancing of a sovereign bond, and the stabilization and subsequent rebounding of foreign exchange reserves. After a deficit in 2022, the current account recorded a surplus of \$607 million for the first 3 quarters of 2023 and foreign exchange reserves increased considerably to \$4.1 billion as of September 2023.^h The International Monetary Fund (IMF) has assessed that while public debt remains high (with public debt-to-GDP at 64.5% in 2022), it is sustainable over the medium term, supported by sustained growth and fiscal consolidation.ⁱ GDP growth is forecast to reach 5.7% in 2023 and 5.9% in 2024, driven by substantial recovery in exports, private sector lending, mining growth, and positive spillover into transport and other sectors.^j</p> <p>Mongolia faces substantial risks from climate change. Mongolia is susceptible to hydrometeorological and climatological hazards. The country has already experienced significant climate change, with warming of more than 2 degrees C, which is higher than the global average, and declines in rainfall reported during 1940–2015.^k A change in temperature and precipitation patterns has increased the frequency and magnitude of extreme weather events such as <i>dzud</i> (severe winter cold and heavy snow associated with large-scale livestock losses). Consequently, this results in significant social costs, such as increased food insecurity, women's loss of livelihoods, rural-to-urban migration, women's increased care work, and impacts to the environment and biodiversity loss. Under the government's New Recovery Policy, climate change risks has been identified as potentially affecting the country's economic recovery and long-term growth.^l</p> <p>Growth relies on carbon-intensive and climate-sensitive sectors and activities. While macroeconomic conditions are favorable, Mongolia faces inherent economic fragilities. Mongolia's economy and livelihoods rely primarily on the mining and agriculture sectors, making it vulnerable to the impacts of climate-induced transition and physical risks. In 2022, the mining sector accounted for 27.3% of GDP and 93% of exports and contributed 5% of total employment (footnote g). The agriculture sector accounted for 15% of Mongolia's GDP and employed 23% of its workforce (42% women).^m However, its contribution to growth has contracted in 2023 because of weather-induced losses of crop production and livestock.ⁿ</p> <p>Climate-induced transition and physical risks will exacerbate shocks to the economy and livelihoods, especially for vulnerable communities and women. The energy and agriculture sectors are driving the increase in greenhouse gas (GHG) emissions, which contribute to about 70% of the country's total emissions.^o With high emissions, both on a per capita basis (23.3 tons per person in 2020) and in relation to its GDP (5.7 million tons per GDP in 2020), Mongolia will need to manage transition risks, including reliance on potentially stranded assets like coal and labor markets linked to a fossil-based economy. Its dependence on climate-sensitive sectors, such as agriculture and livestock; and water, exposes the economy and livelihoods to physical risks linked to climate hazards. Almost 40% of economic losses during 1996–2013 were caused by <i>dzud</i>, and this give rise to losses equivalent to 8%–12% of annual GDP in a year. Livestock losses are projected to increase by 50% by 2050, which can lead to extreme losses of wealth.^p Impacts on agriculture and food production—both on arable farming and animal husbandry—will continue to intensify because of reduced water availability, decreasing soil productivity, and increasing desertification. Socially, climate change poses major challenges to poverty alleviation that disproportionately affect the poorest communities, for whom damage and losses could be significant. Climate-related disasters are one of the main drivers of poverty in Mongolia (the poverty rate in 2020 was 27.8%) and have a disproportionate impact on women, children, and persons with disabilities.^q</p> <p>Climate-induced risks will impact economic and fiscal sustainability. Although Mongolia's GDP expanded by 6.9% during the first three quarters of 2023 and growth in</p>

2023–2024 is projected to be sustained, climate-induced risks are expected to add to shocks linked to volatile commodity markets and geopolitical conditions. Economic losses attributed to the increased frequency of natural and weather-related hazards amounted to MNT 485.8 billion during 2010–2020 (footnote q). However, there are opportunities for greening Mongolia's growth, and investing in climate action will be critical to support fiscal sustainability to deliver Mongolia's medium- and long-term development objectives.

Structural reforms needed to accelerate and sustain investment in climate action. In its updated NDC (footnote b), Mongolia increased its ambition to reduce GHG emissions from 14.0% to 22.7% by 2030 compared with the projected emissions under a business-as-usual scenario. It also defined concrete measures to mitigate and adapt to climate change. An estimated \$11.5 billion is needed to implement NDC priorities, of which \$6.3 billion is for mitigation and \$5.2 billion for adaptation. To finance and catalyze upscaled climate investments to support the implementation of the NDC targets, binding constraints are as follows:

(i) Institutional arrangements for a whole-of-government approach to climate action remain nascent and fragmented.

(a) Policy and institutional frameworks. Actions to address climate change are reflected in the national development policies, NDC, and other sector policies (footnote b). The government is drafting a national adaptation plan (NAP) to identify and implement adaptation actions in climate vulnerable sectors. Climate change mandates remain fragmented, which makes it challenging to coordinate climate action across the government, define stakeholders' responsibilities, and monitor outcomes across ministries and agencies. A climate change law is being developed to create an overarching legal basis for climate action by mainstreaming climate considerations across sectors and setting legal targets and mechanisms for their implementation.⁷ The draft legislation will also establish the National Regulatory Commission for Climate Change, which includes local level representation and technical working committees to deliver specific climate actions and evidence-based policymaking.

(b) Investment planning. NDC priorities needs to be integrated systematically in the public investment program and support sector agencies to identify, prioritize, and design annual and medium-term climate investments and link them to public budget and expenditure frameworks. The Mongolian Green Taxonomy (2019), developed by key financial regulators, ministries, and finance sector industry associations, provides a list of economic activities eligible for green investments.⁸ However, the national taxonomy needs to be expanded to include broader SDG-aligned economic activities (including for mitigation and adaptation) to leverage private investment in climate action.

(c) Monitoring and evaluation system. This is required to enable investors to track the flow of climate finance, collect sex-disaggregated data on climate finance, and assess the impact of investing in climate action from a gender perspective.

(ii) Significant gap in the demand for and supply of climate finance necessitates enhanced public and private sector participation. The annual financing required to meet Mongolia's green development targets is estimated to be \$413 million. NDC implementation requires substantial financing needs, and Mongolia's fiscal capacity is already constrained. Total climate-related public or on-budget expenditures only averaged about 0.39% of GDP during 2017–2020. The government has committed to allocate up to 1% of GDP annually to address climate change, and reforms linked to green procurement and SDG budgeting are being initiated to improve resource management. In terms of private finance, the Bank of Mongolia targets expansion of green loans to 10% of total banks' loan portfolio by 2030. Green loans accounted for only 2.5% of Mongolia's total loan portfolio (MNT428.1 billion) in 2020 largely because of the absence of a clear definition for green projects and means to verify the impact of investing in them. There is a lack of bankable green projects in Mongolia owing to the lack of capacity of public and private sector project sponsors to (a) formulate projects that are green and (b) design investment vehicles and structures that can accommodate private and institutional investments at both the project and facility levels (whether this is a fund or a specific entity,

	<p>such as the Mongolian Green Finance Corporation). There is a need to build on fiscal and financial reforms and incentives to scale up and align public and private activities and finance with climate action.</p> <p>(iii) A shift to a low-carbon and climate-resilient economy requires investment pathways to improve ease of doing business in key Nationally Determined Contribution sectors. The NDC targets key sectors in energy, transport, waste, and construction for climate mitigation. For adaptation, target key sectors include animal husbandry and pastureland, arable farming, water and forest resources, biodiversity, natural disaster prevention, public health, livelihoods, and social safeguards. Barriers that constrain investment in two priority sectors critical to emission reduction and adaptation building are summarized as follows:</p> <p>(a) Energy sector: The priority policy focus of NDC investment is to expand renewable energy in all sectors (aiming for 30% of generating capacity by 2030). Investments in renewable energy and energy efficiency are constrained because of subsidized energy tariffs, lack of absorption capacity of the grid, and the lack of awareness and availability of technologies and systems. Demonstrating the viability of alternative technologies to meet energy and heating needs of the country could potentially address barriers to scale up investments in renewable energy and energy efficiency by lowering costs and providing a clear policy direction of the government to decarbonize the economy.</p> <p>(b) Agriculture sector: Given the importance of agriculture to GDP and food security, the government has prioritized investment in low carbon and climate resilient crop, livestock and food processing systems. Climate-smart investments are constrained due to (a) a lack of economic instruments to incentivize farmers and enterprises to adopt resilient and low carbon agricultural practices; (b) lack of standards and certification schemes to support low carbon and climate resilient agricultural goods and services; and (c) a lack of capacity, including awareness and skills, required to develop and manage climate resilient agricultural systems.[†] Capacity building programs such as skills development initiatives targeting women herders are needed to promote climate-resilient livestock management and green value chains. Incentive mechanisms like subsidies, climate-resilient standard and certification schemes, green procurement, and access to affordable finance are required to ensure a transition to climate resilient and low carbon crop, livestock, and food processing systems.</p>
	<p>^g Government of Mongolia, National Statistics Office. Mongolian Statistical Information Service (accessed 21 September 2023).</p> <p>^h In the same period in 2022, the recorded deficit was \$1.6 billion (about \$5 per person in the US).</p> <p>ⁱ IMF. 2023. Mongolia: Press Release and Staff Report for the 2023 Article IV Consultation. <i>IMF Country Report</i>. No. 23/348. Washington, DC. The main difference between the definitions of ADB and IMF is that ADB's includes the central bank's external liabilities in public debt.</p> <p>^j ADB. 2023. Asian Development Outlook April 2023. Manila.</p> <p>^k Mongolia is recognized as vulnerable to climate change impacts, and is ranked 60th out of 185 countries in the 2021 Notre Dame Global Adaptation Initiative Index, which ranks countries using a score that calculates a country's vulnerability to climate change and other global challenges as well as their readiness to improve resilience. Notre Dame Global Adaptation Initiative. ND-GAIN Country Index (accessed 31 August 2023); and World Bank and ADB. 2021. Climate Risk Country Profile: Mongolia. Washington, DC / Manila.</p> <p>^l Government of Mongolia. New Recovery Policy.</p> <p>^m ADB estimates as of 2023. Sector GDP data were adjusted by net taxes on products. Government of Mongolia, National Statistics Office. Mongolian Statistical Information Service (accessed 21 September 2023). Agricultural products are the second largest export item after minerals. Animal husbandry accounted for about 86% of agricultural production as of 2022 and more than 83% of agricultural exports.</p> <p>ⁿ ADB. 2023. Asian Development Outlook September 2023. Manila. pp. 68–79: East Asia.</p> <p>^o In 2020, Mongolia was one of the top 10 emitters globally in terms of per capita emission and economy-wide carbon intensity. Climate Watch. Historical GHG Emissions (accessed 21 September 2023).</p>

	<p>^p World Bank and ADB. 2021. Climate Risk Country Profile: Mongolia. Washington, DC / Manila.</p> <p>^q World Bank. The World Bank in Mongolia. Overview. Mongolia.; and Asian Disaster Reduction Center. 2022. Country Report: Mongolia. Mongolia.</p> <p>^r Deutsche Gesellschaft für Internationale Zusammenarbeit is leading the drafting of the climate change framework law for Mongolia.</p> <p>^s Mongolian Sustainable Finance Association. 2019. Mongolian Green Taxonomy. Ulaanbaatar.</p> <p>^t ADB. 2023. <i>Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to Mongolia for the Aimags and Soums Green Regional Development Investment Program</i>. Manila; and ADB. 2023. <i>Report and Recommendation of the President to the Board of Directors: Proposed Gobi Climate-Resilient Cashmere Value Chain Project</i>. Manila.</p>
	<p>Thematic Assessment (Summary): Climate Change</p>
<p>Reform areas, ADB's value addition, and sustainability</p>	<p>The proposed program will contribute to a whole-of-government approach to support upstream, midstream, and downstream reforms to accelerate and sustain investment in climate action. It will comprise of two subprograms with a potential third subprogram consisting of key reform areas to strengthen institutional arrangements, fiscal and financial systems, and sector investment pathways to enable public and private investment in NDC and NAP priorities.</p> <p>Reform area 1: Institutional framework, investment planning and budgeting system linkages for climate action strengthened. Over the subprograms, the reform program will progressively support policymakers, regulatory agencies, and sector line ministries to develop institutional and policy frameworks for coherent and coordinated climate action, including investment pipeline development. This will include support for the (i) establishment and operationalization of an inter-ministerial coordination body responsible for mainstreaming climate change across sector policies, program, plans, strategies, and activities; (ii) submission of a climate change law that will (a) promote better governance of climate change in Mongolia and (b) set out the strategic direction for national climate change policy and climate targets in priority sector strategic plans;^u (iii) improvements in public investment planning and financial management systems to convert climate priorities into economically viable and gender-inclusive projects and programs that contribute to the government's low-carbon and climate-resilient development; and (iv) implementation of a climate finance monitoring and evaluation system with sex-disaggregated data to track, report, and verify investment in climate action from a gender perspective. These policy actions will strengthen government capacity to mainstream climate change and gender dimensions into policymaking, planning, budgeting, implementation, and monitoring processes.</p> <p>Reform area 2: Climate finance and resource management enhanced. Reforms to strengthen funding and financing of investments in climate action require enabling policies and regulations, and the use of appropriate financial instruments and incentive mechanisms to leverage public and private finance for key investments in NDC and NAP priorities. This will include the following: (i) domestic resource mobilization through the government's commitment to develop a framework and strategy for sovereign green bond issuance in the domestic or international capital market; (ii) development and adoption of regulatory instruments, such as a green or SDG bond framework and a robust SDG taxonomy (incorporating sex-disaggregated data) and standards, labeling, and verification schemes to guide and incentivize climate investments; (iii) the introduction of incentive mechanisms to increase the share of green loans in the banking and nonbank finance sector and enhance its climate disclosure and reporting; and (iv) support for the operationalization of Mongolia Green Finance Corporation through the government's funding contribution that would catalyze wholesale financing to local participating financial institutions for green and gender-inclusive investments for households and businesses.^v</p> <p>Reform area 3: Sector investment pathways toward a low-carbon and climate-resilient economy strengthened. This reform area will strengthen sector-specific investment pathways to improve the ease of doing business in key NDC sectors. Based on the government's NDC priorities and ADB's comparative advantage, reforms are likely to focus on two or three sectors from among the renewable energy, agriculture and animal husbandry, water, and transport sectors. The selection of sector will be determined through impact and</p>

	<p>stakeholder assessments. Reforms could focus on (i) climate-aligned sector strategies, including sector plans, fiscal incentives, and green procurement, to guide and incentivize investment in activities that reduce emissions and build resilience; and (ii) capacity building programs to develop and manage gender-inclusive climate investments in these sectors.</p> <p>ADB's value addition. ADB's coordination of multiple support programs across relevant sectors leverages NDC partnership support; sector-specific policy reforms; knowledge and capacity development; public-private partnership support; and investments in NDC and NAP priority sectors such as agriculture and rangeland management, energy, forest and biodiversity, water, and finance. Several ADB projects and ADB technical assistance (TA) on climate-related investments have established the foundations and support for the proposed reform program^w A wider OneADB collaboration has brought together sector and thematic groups in preparing the program and bringing synergies for enhancing climate policy engagement with Mongolia.</p> <p>Sustainability. The sustainability of the reforms will be ensured through the following: (i) country ownership that addresses and articulates climate change in the government's development plans and objectives; (ii) complementarity of the reforms on climate action with ADB's Strengthening Fiscal, Finance, and Economic Resilience Program, which will support the government in creating fiscal space for increased public investments that are critical to the implementation of Mongolia's NDC commitments on adaptation and mitigation;^x (iii) institutionalization of policy actions that are designed to strengthen existing institutional systems, which includes a climate change legislation to mainstream climate considerations across sectors, and the setting of legal targets and mechanisms for their implementation; and (iv) alignment of reforms that are being implemented by the government that build on and complement ADB and development partners' ongoing support such as TA to support policy analysis, design, and capacity development, including to the planned International Conference on Nexus of Gender and Climate Change in Ulaanbaatar in 2024 to (a) facilitate experience sharing on gender mainstreaming in climate change policymaking; and (b) support the government's commitment to implement, monitor, and report on the 2017 United Nations resolution on improvement of the situation of women and girls in rural areas.^y Overall, the program will provide a policy umbrella to develop a sustainable pipeline of economically and financially viable climate-responsive investments and reforms to demonstrate and accelerate investments in climate action, underpinned by extensive dialogue, systematic knowledge work, and strengthening of partnerships with key stakeholders.</p> <p>ADB's experience and lessons. The proposed program will integrate lessons from ADB and development partner programs on climate change, taking a whole-of-government approach (footnote w). Climate-based policy lending from development partners highlights the importance of building champions, understanding the political economy constraints, and integrating climate programs into broader country support. It will also build on experience from ADB's first climate policy-based loan in the Philippines, whereby climate actions across key sectors are driven by coordinated NDC implementation, increased accountability for climate action in sector agencies, and stronger capacity of local governments.^z The program design will incorporate prioritization of policy actions that have climate impact, and adoption of sustainable reforms that will address government priorities to enable implementation of its NDC action plan and increase access to climate finance.</p> <p>Development coordination. To build reform consensus, the proposed reform agenda and policy actions were designed in consultation with development partners and the private sector with the Mongolian Sustainable Finance Association. This will align with, complement, and build on ADB's and development partners' ongoing assistance and interventions to address climate change and sustainable finance in Mongolia. Moreover, ADB and the IMF have had regular bilateral meetings on macroeconomic and fiscal issues as part of a wider development partner discussion on supporting the government during the post-pandemic recovery period and on climate change reforms.</p>
	<p>^u Deutsche Gesellschaft für Internationale Zusammenarbeit, with support from the International Climate Initiative and the Government of Germany's Federal Ministry for Economic Affairs and Climate Action, is helping the government in drafting the climate change framework law, which aims to create an overarching legal basis for climate action by mainstreaming climate considerations across sectors and setting legal targets and mechanisms for their implementation.</p>

	<p>^v Mongolia Green Finance Corporation as the first public–private partnership-based national financing vehicle that would channel public, private, and international capital to participating financial institutions for energy efficiency in industry, thermal insulation, and green affordable housing was established in July 2020. Subject to finalization of the shareholder agreement, Mongolia Green Finance Corporation’s initial funding structure of \$50 million was as follows: (i) Government of Mongolia (\$5 million equity and \$13 million loan); (ii) Green Climate Fund (\$5 million equity, \$5 million senior loan, \$15 million subordinated debt, and \$2 million grant); and (iii) the private sector through the Mongolia Mortgage Corporation (\$5 million equity).</p> <p>^w A list of ongoing ADB and development partner programs, projects, and TA are in the attached thematic assessment.</p> <p>^x ADB. Mongolia: Strengthening Fiscal, Financial, and Economic Resilience Subprogram 1.</p> <p>^y United Nations General Assembly. 2017. Improvement of the situation of women and girls in rural areas: resolution / adopted by the General Assembly.</p> <p>^z ADB. 2022. Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 to the Republic of the Philippines for the Climate Change Action Program.</p>
Expected outcome of the reform	The program impact will contribute to the achievement of a low-emission, productive, inclusive, and green economy. The expected outcome is investment in climate action accelerated and sustained through the following reform areas: (i) institutional capabilities in the public and private sectors to develop a pipeline of climate investments strengthened, (ii) fiscal and financial instruments to mobilize and manage climate finance for investment in climate action accelerated, and (iii) investment pathways to improve the ease of doing business in key NDC sectors incentivized.
Development financing needs and budget support	The programmatic approach comprises policy-based loans with subprogram 1 amounting to \$100 million (0.6% of GDP); and subprogram 2 amounting to \$150 million (0.6% of GDP). Possibility for a subprogram 3 is being envisaged to allow a more flexible approach for increasingly ambitious actions to be agreed upon and implemented in line with commitments made under the Paris Agreement. The government’s projected structural budget deficit is 2.8% of GDP or MNT2,071 billion (\$602 million) for 2024, and 2.0% of GDP or MNT1,660 (\$482 million) for 2025, to be financed by domestic resources and external loans, including official development assistance.
Implementation arrangements	The Ministry of Finance (MOF) is the executing agency. The implementing agencies are the Bank of Mongolia; Financial Regulatory Commission; Energy Regulatory Commission; MOF; Ministry of Economy and Development; Ministry of Energy; Ministry of Environment and Tourism; and Ministry of Food, Agriculture and Light Industry. A steering committee, chaired by the MOF’s Debt Management Division and the Ministry of Economy and Development’s Investment Policy Department, will oversee program implementation for subprogram 1 (January 2021 to December 2023) and subprogram 2 (January 2024 to December 2025).
4. Technical Assistance	
Technical assistance description	A TA on Supporting Climate Policy Actions of \$600,000 (\$500,000 financed on a grant basis by ADB’s Technical Assistance Special Fund [TASF 7], and \$100,000 additional financing from the Financial Sector Development Special Partnership Fund of the Government of Luxembourg) was approved in December 2022 to provide necessary policy assessment, design, and enhancement of policy implementation capacity on key crosscutting and sector-specific areas to help further refine and implement the proposed program. The TA supports the preparation of relevant policy instruments, regulations, and implementation guidelines, which will build on existing policies or frameworks and incorporate good practices and lessons in the design of climate policies. A TA on Enhancing Gender Equality for Rural Women and Girls through Climate-Resilient and Gender-Responsive Policies financed by ADB’s TASF 7 is also expected to contribute to the proposed program.
	Technical Assistance Report
5. Due Diligence	
Due diligence requirements	Due diligence will include assessment of (i) program impacts, (ii) climate change, (iii) institutional risks, (iv) gender, (v) environment and social safeguards, (vi) social and poverty analysis, and (vii) anticorruption systems review. The program is expected to be categorized <i>effective gender mainstreaming</i> and C for all safeguard aspects.
Risks and mitigating measures	The national elections expected in June 2024 could shift national priorities around climate change action, resulting in limited attention to policy action commitments. Intensified dialogue to socialize the program with officials of the new administration is needed. The program is

	aligned with national climate commitments that go beyond the current administration, which helps to mitigate the political risks.
6. Stakeholder Engagement	
The program team will undertake regular and extensive stakeholder consultations and development partner coordination to build consensus and strengthen the proposed reform areas and actions. Initial consultations have already been undertaken with relevant ministries and agencies to gather preliminary feedback and guidance.	
7. Program Category	
<input type="checkbox"/> Track 1 (No-objection procedure) <input checked="" type="checkbox"/> Track 2 (Full Board discussion)	
8. Resource Requirements	
About 40 person-months of ADB staff inputs and 38 person-months of consultants' inputs are required to process and implement the program.	
9. Key Issues	
The program will require strong coordination by the executing agency to ensure relevant ministries and agencies understand and meet all requirements, as climate actions cut across sectors. A OneADB team will provide technical support to government agencies on policies related to the reform areas and to strengthen actions included under the two subprograms.	
10. Indicative Timeline	
Milestone	Expected Completion Date
Concept note clearance	January 2024
Fact-finding mission	February 2024
ADB approval	May 2024
Loan signing	June 2024
9. Team Composition	
a. ADB Program Team	
Team Leaders	Jennifer Romero-Torres, Senior Financial Sector Specialist, Finance Sector Office (SG-FIN), Sectors Group (SG) Nanki Kaur; Senior Climate Change Specialist (Climate Change Adaptation); Climate Change, Resilience, and Environment Cluster (CCRE); Climate Change and Sustainable Development Department (CCSD)
Team Members	Tahmeen Ahmad; Senior Financial Management Specialist; Public Financial Management Division; Procurement, Portfolio, and Financial Management Department (PPFD) Cigdem Akin, Principal Public Management Economist, Public Sector Management and Governance Sector Office, SG Michael Anyala, Senior Road Asset Management Specialist, Transport Sector Office, SG Reden John Barloso, Environment Specialist, Office of Safeguards (OSFG) Tsolmon Begzsuren, Social Development Specialist (Gender and Development), Gender Equality Division, CCSD Mark Bezuijen; Principal Environment Specialist; Agriculture, Food, Nature, and Rural Development Sector Office (SG-AFNR), SG Silvia Cardascia, Water Resources Specialist, SG-AFNR, SG Yan Yee Chu, Procurement Specialist, Procurement Division 2 (PPF2), PPF2 Virender Duggal, Principal Climate Change Specialist, CCRE, CCSD Edward Faber, Senior Country Economist, Mongolia Resident Mission Carla Cristina Ferreira, Senior Results Management Specialist, Results Management and Aid Effectiveness Division Sugar M. Gonzales, Climate Change Officer (Climate Change Adaptation), CCRE, CCSD Mart Khaltarpurev, Principal Procurement Specialist, PPF2, PPF2 Alfredo Baño Leal, Senior Energy Specialist, Energy Sector Office, SG Jenelyn Mendez-Santos, Project Analyst, SG-FIN, SG Rea Molina, Operations Assistant, SG-FIN, SG Dustin Schinn, Climate Change Specialist, CCRE, CCSD You-Jung Shin, Counsel, Office of the General Counsel Gohar Tadevosyan, Senior Social Development Specialist, Human and Social Development Sector Office (SG-HSD), SG Hanna Uusimaa, Senior Planning and Policy Specialist; Strategy, Policy, and Business Process Division, Strategy, Policy, and Partnership Department Ferran Vila Planas, Senior Markets Development Advisory Specialist, Advisory Division 2, Office of Markets Development and Public-Private Partnership

	<p>Xiaole Wang, Senior Investment Specialist, Office of the Director General, Private Sector Operations Department</p> <p>Cebele Wong, Health Specialist, SG-HSD, SG</p> <p>Yukitsugu Yanoma, Senior Natural Resources and Agriculture Specialist, SG-AFNR, SG</p> <p>Jian Zhou, Social Development Specialist (Safeguards), OSFG</p>
b. Supporting Departments	<p>Economic Research and Development Impact Department</p> <p>Climate Change and Sustainable Development Department</p> <p>Controller's Department</p> <p>Office of Anticorruption and Integrity</p> <p>Strategy, Policy, and Partnership Department</p>
c. Sector Peer Reviewers	<p>Naeeda Crishna Morgado, Senior Infrastructure Specialist (Innovation and Green Finance), Green Finance Hub Unit, Southeast Asia Department</p> <p>Arghya Sinha Roy, Principal Climate Change Specialist (Climate Change Adaptation), CCRE, CCSD</p>