

FRAMEWORK FINANCING AGREEMENT
AIMAGS AND SOUMS GREEN REGIONAL DEVELOPMENT INVESTMENT PROGRAM

Parties This Framework Financing Agreement ("FFA") dated [_____] is between the Government of Mongolia (Mongolia) and the Asian Development Bank ("ADB").

MFF Investment Program Mongolia is committed to and will implement the Aimags and Soums Green Regional Development Investment Program, described in Schedule 1 hereto.

The total cost of the Aimags and Soums Green Regional Development Investment Program over the period 2022 to 2032 is expected to be \$735,000,000 equivalent.

Multitranche Financing Facility The Multitranche Financing Facility (the Facility) is intended to finance components, under the Investment Program, provided that such components comply with the criteria set out in Schedule 4 hereto¹ and that understandings set out in this FFA are complied with.

These may include:

- (i) climate-resilient, low-carbon, and attractive *aimag* (province) and *soum* (subunit of an *aimag*) centers developed;
- (ii) climate-resilient, high-carbon sequestration, and sustainable rangeland management implemented;
- (iii) accessible financing for low-carbon and climate-resilient livestock value chains created (financial intermediation loan component); and
- (iv) institutional capacity and policies for low-carbon and climate-resilient agro-territorial development strengthened.

This FFA does not constitute a legal obligation on the part of ADB to commit any financing. ADB has the right to deny any financing request made by Mongolia, cancel the uncommitted portion of the Facility, and withdraw Mongolia's right to request any financing tranche under the Facility. Financing tranches may be made available by ADB provided matters continue to be in accordance with the general understandings and expectations on which the Facility is based and which are laid out in this FFA.

This FFA does not constitute a legal obligation on the part of Mongolia to request any financing. Mongolia has the right not to request any financing under the Facility. Mongolia also has the right at any time to cancel any uncommitted portion of the Facility.

Mongolia and ADB may exercise their respective rights to cancel the Facility or any uncommitted portion thereof, and ADB may exercise its right to refuse a financing request, by giving written notice to such effect

¹ This include the program alignment with agricultural logistics and supply centers, and agricultural production clusters models and selected locations formulated by the Ministry of Economic Development.

to the other parties. The written notice will provide an explanation for the cancellation or refusal and, in the case of a cancellation, specify the date on which the cancellation takes effect. ADB may cancel the Facility or reject a financing request when there is a material noncompliance with ADB policies or FFA undertakings; or there are undue delays in the submission of the financing requests or the implementation of the Investment Program.

Financing Plan

The financing plan for the Aimags and Soums Green Regional Development Investment Program is summarized below.

Financing Source	Total (\$ million)	Share of Total (%)
1. Asian Development Bank		
(i) OCR (regular loan)	135.0	18.4
(ii) OCR (concessional loan)	135.0	18.4
(iii) Special Funds resources (ADF grant)	3.0	0.4
2. Green Climate Fund (grant) ^a	45.0	6.1
3. Green Climate Fund (loan) ^a	130.0	17.7
4. European Investment Bank (grant) ^b	30.0	4.1
5. European Investment Bank (loan) ^b	150.0	20.4
6. Government of Mongolia	75.3	10.2
7. Beneficiaries	6.7	0.9
8. DBM/Commercial banks/Private sector	25.0	3.4
Total Investment Program	735.0	100.0

ADF = Asian Development Fund, DBM = Development Bank of Mongolia, OCR = ordinary capital resources.

^a To be administered by the Asian Development Bank.

^b Parallel cofinancing, not administered by the Asian Development Bank.

Source: Asian Development Bank estimates.

Financing Terms

ADB will provide loans, grants, and administer cofinancing to finance components under the Investment Program, as and when the latter are ready for financing, provided, Mongolia is in compliance with the understandings hereunder, and the components are in line with those same understandings. Each loan, grant, and administered cofinancing will constitute a tranche.

Each tranche may be financed under terms different from the financing terms of previous or subsequent tranches. The choice of financing terms will depend on the project, capital market conditions, and ADB's financing policies, all prevailing on the date of signing the legal agreement for such tranche.

Tranches may be provided in sequence or simultaneously, and some may overlap in time with each other.

Commitment charges are not payable on the Facility. They are payable only on financing actually committed by ADB as a loan. ADB rules on commitment charges, which are in effect when the legal agreements are signed for a tranche, will apply with respect to such tranche.

Amount

The maximum financing amount available under the Facility is \$448 million. It will be provided in individual tranches as a blend of regular and concessional loans from ADB's ordinary capital resources, ADB Special Funds resources (Asian Development Fund), and cofinanced loan and grant from the Green Climate Fund (GCF) to be administered by ADB in the following manner:

ADB ordinary capital resources: \$135 million (regular loan)

ADB ordinary capital resources: \$135 million (concessional loan)

ADB Special Funds Resources (Asian Development Fund): \$3 million (grant)

GCF loan: \$130 million

GCF grant: \$45 million

The European Investment Bank will provide a parallel collaborative cofinancing (not administered by ADB) of up to \$150 million equivalent loan and \$30 million equivalent grant.²

Availability Period

The last date on which the Facility may be utilized is 31 December 2032. The last financing tranche is expected to be executed no later than December 2027.

Terms and Conditions

Mongolia will cause the proceeds of each tranche to be applied to the financing of expenditures of the Investment Program, in accordance with conditions set forth in this FFA and the legal agreements for each tranche.

Execution

The executing agency will be the Ministry of Economic Development (MED). The executing agency will implement the Investment Program together with Ministry of Construction and Urban Development (MCUD), the Ministry of Food, Agriculture and Light Industry (MOFALI) and the Development Bank of Mongolia (DBM), the Implementing Agencies, in accordance with the principles set forth in Schedule 1 to this Agreement, and as supplemented in the legal agreements for each tranche.

Periodic Financing Requests

Mongolia may request, and ADB may agree, to provide loans, grants, or administer cofinancing under the Facility to finance the Investment Program and its related components upon the submission of a Periodic Financing Request (PFR). Each PFR should be submitted by Mongolia. Mongolia will make available to MED, and through MED to the Development Bank of Mongolia (DBM), the proceeds of the tranche in accordance with the related PFR, and the legal agreements for the tranche.

² The grant from the Asia Investment Facility of the European Union is administered by the European Investment Bank.

Each individual tranche will be for an amount of no less than \$100 million, or its equivalent. ADB will review the PFRs and, if found satisfactory, prepare the related legal agreements.

The components for which financing is requested under the PFR will be subject to the selection criteria set out in Schedule 4 hereto, satisfactory due diligence, and preparation of relevant safeguard and fiduciary frameworks and other documents. The Facility will be implemented in accordance with the general framework set out in Schedule 3 to this FFA, and the Facility Administration Manual (FAM) agreed between MED; MCUD; MOFALI; DBM; and ADB.

Until notice is otherwise given by Mongolia, the Minister of Finance will be Mongolia's authorized representative for purposes of executing PFRs.

**General
Implementation
Framework
Procedures**

The Facility will be implemented in accordance with the general framework set out in Schedule 3 hereto.

Tranches to be provided under the Facility will be subject to following procedures and undertakings:

- (i) Mongolia will have notified ADB of a forthcoming PFR in advance of the submission of the PFR.
- (ii) Mongolia will have submitted a PFR in the format agreed with ADB.
- (iii) ADB may, in its sole discretion, decline to authorize the negotiation and execution of any legal agreement for a tranche.
- (iv) If ADB confirms acceptance of the PFR, the legal agreements will be negotiated and executed by the parties.

PFR information

The PFR will substantially be in the form attached hereto, and will contain the following details:

- (i) loan, grant, or cofinancing amount;
- (ii) description of components to be financed;
- (iii) cost estimates and financing plan;
- (iv) implementation arrangements specific to the components;
- (v) confirmation of the continuing validity of and adherence to the understanding in this Agreement;
- (vi) confirmation of compliance with the provisions under previous Loan Agreements and Program Agreements, as appropriate; and
- (vii) other information as may be required under the FAM, or reasonably requested by ADB.

Safeguards

Attached as Schedule 5 are references to the Safeguard Frameworks that will be complied with during processing and implementation of the components under the Facility.

ADB's Safeguard Policies in effect as of the date of signing of legal agreements for a tranche will be applied with respect to the components financed under such financing tranche.

Procurement	All goods and services to be financed under the Facility will be procured in accordance with ADB's Procurement Policy (2017, as amended from time to time).
Consulting Services	All consulting services to be financed under the Facility will be procured in accordance with Procurement Regulations for ADB Borrowers (2017, as amended from time to time).
Advance contracting; Retroactive financing	Under each tranche, ADB may, subject to its policies and procedures, allow on request (i) advance contracting and (ii) retroactive financing of eligible expenditures for up to 20% of proposed individual loan, incurred prior to loan effectiveness but not earlier than 12 months before the date of signing of the related legal agreement. Mongolia acknowledges that any approval of advance contracting and/or retroactive financing will not constitute a commitment by ADB to finance the related project.
Disbursements	<p>Closing date of any tranche under the facility will be on or before 25 November 2032.</p> <p>Disbursements for each tranche will be made in accordance with ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time).</p>
Monitoring, Evaluation, and Reporting Arrangements	<p>The program performance management system (PPMS) indicators, their relevance, and monitoring practices will be discussed with the executing and implementing agencies, and program beneficiaries during program implementation. Disaggregated baseline data for output and outcome indicators gathered during program processing will be updated and reported through quarterly and annual progress reports prepared by the project implementation unit (PIU) and after each ADB review mission. The annual reports will provide information necessary to update ADB's program performance reporting system. At the start of program implementation, the PIU, with project 1 consulting services, will develop integrated PPMS procedures to generate data systematically on the inputs and outputs of the components, as well as the indicators to be used to measure the program's impact and outcome. The PIU will be responsible for monitoring and reporting on program performance. The basis for performance monitoring will be the design and monitoring framework (DMF) and the GCF funding proposal logic framework, which identify performance targets for the impact, outcome, and outputs of the program. By collecting data from the sources identified in the DMF and GCF funding proposal logic framework, the PIU will report on the performance of the program on an annual basis. Specific reporting requirements will be set out in each project's legal agreements between ADB and the government. The MED will collect the data, calculate the indicators, analyze the results, and prepare a brief report describing the extent to which the program is generating the intended outputs and outcome, as well as the overall impact of the program. Meanwhile, the agreed socioeconomic and environmental indicators to be used will be further enhanced to measure program impacts. The PIU will (i) refine and integrate the PPMS framework at the start of program implementation; (ii) confirm that targets are achievable; (iii) develop recording, monitoring,</p>

and reporting arrangements; and (iv) establish systems and procedures no later than 6 months after program inception. Schedule 2 hereto sets as the DMF for the Facility, against which the implementation effectiveness will be evaluated.

Undertakings

Attached as Schedule 6 are the undertakings provided by Mongolia.

Government of Mongolia

ASIAN DEVELOPMENT BANK

By _____

By _____

SCHEDULE 1

MULTITRANCHE FINANCING FACILITY CONSTITUENTS

A. Road Map

1. In 1990, upon disengaging from the Soviet Union, Mongolia entered a transitional period. *Aimag* and *soum* centers were unable to play their role as anchors of economic activities.¹ The quality of animal products and livestock value chains, which began to rely on quantity with low price differentiation and incentives for quality, deteriorated. Herders started to migrate to urban areas in response to (i) the low value of livestock; (ii) higher exposure of their animals to disease because of poor livestock breeding, feed supply, and veterinary services; and (iii) massive losses of livestock caused by *dzud* (a succession of droughts and severe winters), especially during 2000–2001 and in 2010.² Many rural households settled on the outskirts of Ulaanbaatar and in *aimag* centers, overwhelming the capacity of cities to absorb them, and formed vast unplanned settlements, known as *ger* areas, which account for about 60% of Ulaanbaatar's population and more than 70% of the population of *aimag* centers.³ In 2020, the urbanization ratio in Mongolia represented about 70% of the country's 3.3 million population. This caused urban systems, already exceeding their planned service life, to further deteriorate and become undersized to meet existing and future needs for Mongolia's growing urban population.⁴ With 1.6 million population, Ulaanbaatar accounts for 69% of the urban population, and 63% of gross domestic product. The demographic and economic weight of the capital city illustrates the country's drastic territorial imbalance.

2. The combination of herders expanding herd size to compensate for anticipated livestock losses (especially from *dzud*), open access to pasture, unbalanced herd composition (with a high proportion of goats), and poor rangeland management practices has put Mongolia's rangelands under severe threat.⁵ Overgrazing is on average 22.6% above the rangeland carrying capacity, as a result, about 70% of pastoral land has been degraded.⁶ The situation has impacted livestock productivity and made herds more vulnerable to climate events and disease, resulting in

¹ *Aimag* center refers to the *aimag* capital. Except for Darkhan and Erdenet (each with about 80,000 people), the population of most *aimag* centers ranges from 15,000 to 40,000. *Soum* center refers to the main town in a *soum*. Inter-*soum* centers refer to *soum* centers of strategic and economic importance within an *aimag*, with populations ranging from 2,000 to 10,000.

² The loss of large quantities of livestock during past *dzud* illustrates the vulnerability of herders and the severe impact of *dzud* on national livestock assets. During the *dzud* of 2000–2001, 25% of Mongolia's livestock perished. From 1999 to 2003, about 180,000 people migrated to Ulaanbaatar, having lost their livelihoods to the severe winters.

³ *Ger* areas are settlements of low-income and middle-income households characterized by loosely aligned plots connected by irregular and unpaved pathways. Most dwellings are disconnected to basic infrastructure and are poorly insulated detached solid houses and *gers* that use inefficient coal stoves that produce heavy carbon dioxide emissions and air pollution, especially during winter.

⁴ In *aimag* and *soum* centers, gaps between supply and demand for urban services are mainly caused by (i) underperforming coal-based district heating, wastewater treatment, and water supply systems; (ii) lack of drainage and flood protection infrastructure; (iii) limited operation and maintenance resources; (iv) a stagnating economic situation that constricts infrastructure investment; (v) absence of economic zones or agro-industrial parks with appropriate economic and urban services to facilitate growth of local businesses; (vi) lack of solid waste management; (vii) lack of proper domestic and industrial wastewater treatment facilities; (viii) overcrowded public buildings in poor condition (e.g., for education, government, and health services), especially in *soum* centers; and (ix) lack of provision for affordable housing.

⁵ Goats are particularly destructive to rangelands but are popular because they generate good income from cashmere. Rangelands are the most common Mongolian land type, covering 82% of the country.

⁶ Data from the 2017 National Mongolian Livestock Program (NMLP), the National Statistics Office (NSO) of Mongolia, and *soum*-level datasets of the Ministry of Food, Agriculture and Light Industry.

deteriorating quality of meat, wool, and other livestock products and lower incomes for herders, who compensate by further increasing herd sizes.⁷ This vicious cycle has led to uncontrolled and exponential increases of livestock heads. While livestock numbers ranged from 20 million to 25 million heads during 1970–1990, it has reached 60 million in 2017 and 66 million in 2018.⁸ Ongoing rangeland degradation is also associated with considerable reduction of above- and below-ground biomass, and lessening the carbon storage capacity of soil. Improving rangeland management thus offers huge climate change mitigation prospects. It is estimated that Mongolia can avoid emissions of more than 440 million tons of carbon dioxide equivalent over the next 20-year period from soil carbon sequestration.⁹

3. During the last decade, the Government of Mongolia has set policies and objectives to reverse overgrazing trends and reduce overall livestock numbers to sustainable levels. However, those attempts failed to reverse the exponential increase of animals and overcome complex and interrelated barriers inherent to the livestock industry.¹⁰ The Swiss Agency for Development and Cooperation through the Green Gold project has established pasture user groups (PUGs) and rangeland use agreements (RUAs).¹¹ Green Gold project activities were gradually handed over to the National Federation of Pasture User Groups and the *Aimag* Federation of Pasture User Groups. Yet, few RUAs have been officially registered and even fewer stocking adjustment rates have been formulated. PUGs lack incentives and marketing opportunities to sell animals and reduce herd sizes.¹² The lack of well-functioning cooperatives, certification systems, and linkage with agriculture value chain led to a dearth of quality livestock raw materials and failure to establish sustainable mechanisms to reduce herds and ensure sustainable rangeland management.

4. **Weak small and medium-sized enterprise development.** Development of small and medium-sized enterprises (SMEs) in Mongolia is constrained by unaffordable interest rates and short-term loans; high and rigid collateral requirements, especially for immovable assets; overly complicated administrative procedures; and low financial literacy of SME borrowers.¹³ In remote *aimags*, SMEs lack access to appropriate urban and economic services. Local agricultural enterprises and value chains suffer from weak finance ecosystems; dominance of large agribusiness companies based in Ulaanbaatar; low entrepreneurial skills; and lack of start-up capital and support to access available financing, affordable financing products, and supportive national program and policies. These challenges impede agribusiness investments at the point-of-need, preventing job creation and local development, which are required to promote economic

⁷ NSO indicates that two-in-five herder families live in poverty. If the situation continues, more herder families will be pushed into poverty, eroding national food security and contributing to turning rangelands into deserts.

⁸ Livestock data from the NSO. [Mongolian Statistical Information Service](#) (accessed 7 October 2021).

⁹ Carbon sequestration is the process of capturing and storing carbon dioxide. It reduces the amount of carbon dioxide in the atmosphere, contributing to the mitigation of global climate change.

¹⁰ The rapid growth of animal husbandry since 2010 has caused numbers to exceed the NMLP targets. The NMLP target for sheep heads for 2021 is 79.7 million; the number for 2019 was 119.0 million, exceeding the target by 49%. With continued rapid growth, the projected total for 2021 is 140 million, 75% more than the target.

¹¹ Swiss Agency for Development and Cooperation, 2021. *Sustainably Managed Pastures and Healthy Animals: Mongolia's 'Green Gold'*. RUA is a collective and voluntary agreement between a group of herders and the *soum* government that is (i) legally recognized and registered by the Agency for Land Management and Administration, Geodesy and Cartography and the Ministry of Justice and Home Affairs; and (ii) socially and politically accepted by all parties. To be legally registered and binding, it must include five annexes with information such as herd size, composition, pasture use, state of rangeland, and carrying capacity.

¹² Stocking adjustment rate is the number of animal units set at or below the carrying capacity of a certain land area.

¹³ As of March 2019, the average interest rate for SME business loans was 17.7% and the average interest rate for SME personal loans was 19.7%—both much higher than the Bank of Mongolia's policy rate of 11.0% and typical interest rates of 13.0%–14.0% for corporations. Banks require collateral to guarantee a loan in 99.7% of cases, and collateral value required is about 200.0% of the loan's value on average.

diversification, counterbalance Mongolian's overdependence on mining, and reverse the flow of migration to Ulaanbaatar.

5. **Western aimags.** The three Western *aimags* of Bayan-Ulgii, Khovd, and Uvs have fragile ecosystems and rely heavily on mountain pastureland, high mountain water flow, and oases. The population and environment of these three *aimags* are particularly vulnerable to climate change. Melting permafrost and glaciers, rising temperatures, and changing precipitation patterns are severely affecting the composition and distribution of water resources. The overgrazing rate in the western *aimags*, estimated at 27.4% more than the carrying capacity, is five percentage points higher than the national average. The lack of investment in the three western *aimags* has left them isolated and underequipped, despite (i) being a strategically important trade and western development link along Central Asia Regional Economic Cooperation corridor 4a, (ii) the importance of the area in balancing Mongolia's territorial development and boosting regional trade, and (iii) the prominence of animal husbandry in employment (it accounts for about 38%–51% of total employment).

6. **Government road map.** The government is fully aware of the severity of the situation and has formulated Vision 2050, a two-stage framework to guide long-term development and promote human development, quality of life, green development, and sustainable regional development.¹⁴ The New Recovery Policy (NRP)¹⁵ of the government aim to create the conditions to reach the objectives of the first implementation stage (2021–2030) of Vision 2050. It promotes Recovery of Operations of Border Ports, Energy Recovery, Industrial Recovery (especially through supporting agro-business industry development and increased value-added of local agro-processing industry for domestic and export markets), Urban Rural Recovery (especially through supporting the development of regional clusters, reversing migration to Ulaanbaatar, and decreasing the Capital City congestion); and Recovery through Green Development (especially through sustainable rangeland management and green urban development), and Recovery of Public Productivity. Finally, following the food security and promoting food supply resolution of the Parliament,¹⁶ the government, through the MED, have developed a national food safety and sustainable food supply strategy based on Mongolia specific climatic, geographical, resources conditions using an integrated planning approach aiming to upgrade agricultural production, supply and logistic clusters in selected *soums*.¹⁷ Ministries have developed sectoral plans and policies to support and guide the implementation of the road map.¹⁸ The Ministry of Construction and Urban Development (MCUD) and the Ministry of Economic Development are implementing territorial and regional development studies that formulate key strategic directions for *aimag* development and priority public and private investments. The Ministry of Food, Agriculture and Light Industry (MOFALI) formulated the State Policy on the Food and Agriculture sector (2016–2025), 2015; the

¹⁴ State Great Khural. 2020. *Vision 2050: Long-Term Development Policy of Mongolia*. Ulaanbaatar.

¹⁵ Enacted by the Act of Parliament No.106 dated in 30th Dec, 2021

¹⁶ 17th June 2022, the parliament ratified a resolution on ensuring food security and promoting food supply, which includes the following key measures: (i) mobilize \$540 million through government bonds, sovereign guarantees, loans from international development partners, investors, and PPPs to ensure food security, of which deploy \$160 million for supporting food supply in 2022; (ii) promote export-oriented food production and increase food production for import substitutions to reduce dependency on imported food; (iii) improve standards, quality controls, laboratories, technologies, and M&E mechanism in food production, storage, transportation, and trade; (iv) increase domestic supply of fodder and forage; (v) promote irrigation systems and irrigated agriculture production; (vi) develop agriculture parks for establishing cluster-based agriculture value chains; (vii) improve livestock sanitary condition and improve pastureland management; (viii) promote intensive and semi-intensive livestock farming; and (x) support domestic food processing.

¹⁷ This includes 10 soums located in the western region.

¹⁸ The two-stage national comprehensive development plan (2021–2030 and 2030–2050), was formed through the support of the Asian Development Bank (ADB). Mongolia: Human Settlements Development Program; and the Japan International Cooperation Agency's Regional Development Policy.

Mongolian Herders National Program, 2020; and the Action Plan of Mongolian Agenda for Sustainable Livestock, 2018. Finally, Mongolia's Third National Communication drives the national climate action plan.¹⁹

7. **Program priorities and approach.** Implementing the comprehensive government Road Map in *aimags* and *soums* will help arrest the vicious cycle of interrelated and mutually reinforcing sector bottlenecks described above, further aggravated by the coronavirus disease (COVID-19) crisis. In this context, a piecemeal, short-term, or single sector-oriented approach would be unsustainable and insufficient. For example, investing solely in infrastructure in a stagnating economic context would be inefficient and would not promote a functional and dynamic urban development process. Providing financial support for livestock husbandry while failing to address lagging infrastructure, complicated SME administrative services and the problem of poor animal value would not be enough. Supporting better management of natural resources would be unsustainable and less effective without parallel provision of services for herders and support for market links to promote inclusive and green value chains. Through its comprehensive and multisector long-term approach, the multitranche financing facility (MFF) program of the Asian Development Bank (ADB) will ensure that real transformation takes place within rural communities, motivated and sustained by low-carbon and climate-resilient livestock value chains (LCLVCs), with livable *aimag* and *soum* centers acting as anchors for private sector investment. The MFF program will incorporate this approach into a regional development strategy and develop a green agro-territorial model²⁰ supported by policy reforms and institutional strengthening at both the local and national levels and building on agricultural production, supply and logistic clusters model formulated by MED.

8. **Policy framework.** Aligning with the long-term strategic development objectives of the Road Map, the program will follow integrated and synergetic guiding principles for its policy framework, capacity development, and investment outputs: (i) inclusive and green urban–rural transformation, through improved living conditions and performance of priority urban settlements as anchors for local economic development, to attract LCLVC investments at the point-of-need and reconnect urban and rural economies; (ii) sustainable, climate-resilient, and low-carbon rangeland management, driven by incentives to encourage better rangeland management practices, grassroots organization, and transitional support for herders; improve animal feed, breeding, and health to support more productive and quality animals, reverse ecosystem degradation and increase its capacity for carbon sequestration; enhance rangeland and herder communities' resilience to climate change; and, by improving resource efficiency and food production, improve food security despite the adverse impacts of climate change; (iii) well-functioning and inclusive LCLVCs, hinged on accessible and responsive financial and non-financial support for herders, SMEs, and other stakeholders involved in the agricultural sector operating in the *aimag* and inter-*soum* centers;²¹ and (iv) improved planning, capacity, knowledge, and institutions, especially for all the stakeholders of the agricultural sector, to support

¹⁹ Ministry of Environment and Tourism. 2018. *Mongolia Third National Communication under the United Nations Framework Convention on Climate Change*. Ulaanbaatar.

²⁰ A territorial approach aims to realize the potential of a territory through strategic management of the relationship between economic development, social inclusion, and environmental sustainability. The goal of agro-territorial development is to link smaller cities and towns with their rural "catchment areas" and improve access to food and income opportunities for the urban and rural poor. Food and Agriculture Organization of the United Nations. 2017. *Development Economics Policy Brief: Strong Rural–Urban Linkages are Essential for Poverty Reduction*. Rome.

²¹ A well-functioning LCLVC provides stakeholders with services to sustain their activities while minimizing their carbon footprint, supporting sustainable management of natural capital, and promoting climate adaptation.

transformational low-carbon, climate-resilient, and inclusive territorial development plans and policies.

B. Strategic Context

9. **Strategic context.** The strategic context and long-term partnership of the Road Map (i) is consistent with the ADB's country partnership strategy for Mongolia, 2021–2024,²² especially its post–COVID-19 recovery action plan, and will contribute to overcoming economic contraction and exacerbated inequalities to promote sustainable economic growth, diversification, and inclusiveness; (ii) is aligned with the seven operational priority plans of ADB's Strategy 2030;²³ and (iii) supports Central Asia Regional Economic Cooperation 2030 and its Common Agenda for Modernization of Sanitary and Phytosanitary Measures for Trade by contributing to agricultural trade and regional public goods, mitigating desertification and climate change, and containing transboundary animal health problems.

10. **Development coordination and partnerships.** This approach will build on a number of ongoing and planned initiatives in Mongolia targeting urban development, rangeland management, and livestock industry development. Urban infrastructure and services will build on (i) ADB's projects such as (a) Southeast Gobi Urban and Border Town Development Project; (b) Darkhan Wastewater Management Project; (c) Managing Solid Waste in Secondary Cities and (ii) the Swiss Agency for Development and Cooperation (SDC) and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) project (Improved Energy Efficiency of Public Buildings).²⁴ It will also include improvement of water, sanitation, and hygiene facilities aligned with the ADB-funded Improving Access to Health Services for Disadvantaged Groups Investment Program... Finally, the Sustainable Tourism Development Project (Phase 2) that targets the three western *aimags* is offering great synergies for economic and territorial development strategy and impact.²⁵

11. Sustainable livestock and rangeland management will build on (i) “Green Gold” Animal Health Project and “Green Gold” Pasture Ecosystem Management Project (Phases 1–4) (SDC), (ii) Market and Pasture Management Development Project (International Fund for Agricultural Development), and (iii) Mongolia Livestock and Agricultural Marketing Project (the World Bank). The investment program will learn from and complement (i) Improving Adaptive Capacity and Risk Management of Rural Communities in Mongolia Project (United Nations Development Programme [UNDP]); (ii) Ecosystem-Based Adaptation Approach to Maintaining Water Security in Critical Water Catchments in Mongolia (UNDP); (iii) Index-Based Livestock Insurance Program (the World Bank); (iv) Vegetable Production and Irrigated Agriculture Project (ADB); (v) Inclusive and Sustainable Vegetable Production and Marketing (SDC); (vi) Sustainable Cashmere Project and Sustainable Textile Production and Eco-Labeling (Agronomes et Vétérinaires Sans Frontières and European Union [EU]); (vii) Livestock Commercialization Project (the World Bank); (viii) Preparing the Climate-Resilient and Sustainable Livestock Development Project (ADB); (ix) Skills for Employment Project (ADB); (x) Regional Improvement of Border Services Project

²² ADB. 2021. *Country Partnership Strategy: Mongolia, 2021–2024—Laying Resilient Foundations for Inclusive and Sustainable Growth*. Manila.

²³ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

²⁴ ADB. *Mongolia: Southeast Gobi Urban and Border Town Development Project*; ADB. *Mongolia: Darkhan Wastewater Management Project*; ADB. *Mongolia: Managing Solid Waste in Secondary Cities*; ADB. *Mongolia: Improving School Dormitory Environment for Primary Students in Western Region Project*; ADB. *Mongolia: Early Childhood Education for Rural, Nomadic, and Migrant Children*; and World Bank. 2007. *Education for All: Fast Track Initiative Catalytic Fund Project*. Washington, DC.

²⁵ ADB. *Mongolia: Sustainable Tourism Development Project (Phase 2)*.

and its additional financing (ADB); (xi) Green Pasture Pilot (Mercy Corps and SDC, in partnership with XacBank); and (xii) Support to Employment Creation in Mongolia (EU, implemented by the Food and Agriculture Organization of the United Nations and United Nations Industrial Development Organization).²⁶

12. Those initiatives represent great opportunities for learning and knowledge transfer but also for complementarities and synergies. Despite being sector-relevant, they are targeting only certain aspects of the larger problem. To be efficiently and sustainably solved, the problem requires a full range of coordinated interventions within an integrated territorial framework that could complement and capitalize on local and sectoral achievements to promote a replicable inclusive, low-carbon, and climate-resilient development.

13. **The multitranche financing facility.** The program will be implemented using an MFF modality with a financial intermediation loan (FIL) component, over a 10-year period with three tranches. Lessons from similar ADB sector interventions indicate that a comprehensive urban–rural development program requires close coordination among multiple government agencies and strong government capacity to carry out policy reforms, sustain the program outcome, and replicate outputs to other regions of the country.²⁷ This is built into the program’s detailed policy framework, its capacity development component, and the stakeholder engagement plan, which are linked to the outputs and tranche structure of the MFF. The MFF structure will enhance ADB’s value addition in carrying out the necessary transformations, remove barriers and implement replicable mechanisms over its successive tranches, and drive the paradigm shift promoted by the program and its road map. Subsequent tranche investments will fall within the framework of the overall MFF and its output structure, conditional upon the MFF undertakings, subproject readiness, selection criteria, and decision filters (Schedule 4).

14. **Modality advantage.** Compared with other modalities, only an MFF could generate the critical mass, continuity, predictability, and replicable mechanisms to support communities, the government, and the private sector to transform the status quo of the animal husbandry industry and the urban economy in a sustainable manner.²⁸ The MFF’s well-defined and phased shifts will allow the government to upscale, mainstream, and maintain the green agro-territorial model, focusing in priority locations for agricultural production, supply and logistic clusters identified by the MED, to achieve the objectives of the Road Map. Specifically, the MFF will (i) allow effective implementation of processes and plans that require sustained long-term engagement and phasing; (ii) pilot innovations in project 1 and phase their upscaling and replication without losing momentum, capacity, and knowledge; (iii) deploy in a timely manner lessons from earlier tranches to subsequent tranches, and ensure necessary adjustments to accommodate the local context; (iv) build cross-agency institutional coordination and cooperation mechanisms through a large upfront capacity building component, sustained over the subsequent tranches; (v) provide stakeholders and development partners with multiple entry points for policy dialogue and apply lessons from tranche-to-tranche; and (vi) replicate the green agro-territorial development model by capturing

²⁶ Key technical assistance (TA) support include the following: ADB. [Strengthening Carbon Financing for Regional Grassland Management in Northeast Asia](#); ADB. [Mongolia: Cooperative-Based Sustainable Agriculture Production](#); ADB. [Mongolia: Fostering Value-Added Activities in Western Mongolia](#); and ADB. [Mongolia: Catalyzing Private Sector Investment for Sustainable Forest and Pasture Management in Mongolia](#).

²⁷ Lessons in urban development, rangeland and livestock management, and financial intermediation and support for SMEs and agribusinesses are in Sector Assessment (Summary): Water and Other Urban Infrastructure and Services; Agriculture, Natural Resources and Rural Development (accessible from the list of linked documents in Appendix 2 of the report and recommendation of the President [RRP]); and in Development Coordination (accessible from the list of linked documents in Appendix 2 of the RRP).

²⁸ Comparison of Financing Modality (accessible from the list of linked documents in Appendix 2 of the RRP).

achievements from complementary sector-focused initiatives using a set of well-defined readiness and selection criteria, and focusing in priority locations for agricultural production, supply and logistic clusters identified by the MED.

15. **Eligibility of financial intermediary.**²⁹ An apex financial institution will be established to channel the funds to participating banks. Selection of financial intermediaries is based on eligibility and selection criteria that include the following: (i) duly registered bank in Mongolia under the applicable laws of Mongolia; (ii) adequate capacity to conduct retail banking for agriculture and agribusiness in the targeted *aimags* and *soums*; (iii) meet ADB's reporting, governance, safeguard, and financial due diligence policies and standards; (iv) have no past-due obligations with the Bank of Mongolia or adverse audit findings; and (v) have agricultural sector and multi-sectoral financing experience in the targeted *aimags*.

16. **Scope of tranches 1–3.** The program will cover up to 15 *aimags*, for targeted investments from output 1 and 2.³⁰ Output 3 will cover the above mentioned *Aimags*, but can also be implemented over the entire Mongolia based on selection criteria in Annex 1. **Tranche 1** will focus on 7 *aimags*. This includes Bayan-Ulgii *aimag*, Khovd *aimag*, and Uvs *aimag* for targeted investments; plus up to four other additional *aimags* for initial activities and project preparation, to be identified during Tranche 1 based on selection criteria in Schedule 4 and agricultural cluster location identified by the MED. Output 1 activities will target (i) Ulgii *aimag* center and Deluun inter-*soum* center in Bayan-Ulgii, (ii) Khovd *aimag* center, and (iii) Ulaangom *aimag* center and Umnogovi inter-*soum* center. Outputs 2 will cover all affiliated *soums* that are under the area of influence of the targeted *aimag* or inter-*soum* centers under output 1.³¹ **Tranche 2** will cover tranche 1 locations to complement tranche 1 activities and will cover additional *aimags* based on selection criteria in Schedule 4 and based on priority locations for agricultural development identified by the MED (footnote 33). Tranche 2 will build on ongoing ADB, UNDP, or other initiatives wherein some of the program outputs are already in place and are compatible with the program's green agro-territorial model.³² Similarly, tranche 3 will assess local achievement in other *aimags* and provide complementary investments to replicate the program's green agro-territorial model, using its resources more strategically to cover a wider geographical scope based on the 15 *aimags* identified for priority implementation (footnote 33).

C. Policy Framework

17. The policy framework and capacity development is in line with the strategic objectives of the Road Map and will support:

- (i) **Strategic objective 1** by improving low-carbon and climate-resilient urban services, regulation, and planning through (a) using adapted design code and

²⁹ The detailed eligibility and selection criteria are discussed in Facility Administration Manual (FAM) (accessible from the list of linked documents in Appendix 2 of the RRP).

³⁰ Based on priority locations for agricultural production, supply and logistic clusters identified by the MED, and other criteria such as together with socioeconomic development level, urban hierarchy and urban development, rangeland degradation and overgrazing, vulnerability to climate change, livestock agribusiness development potential criteria, up to 15 aimags have been identified for priority implementation: 1. Khovd; 2. Uvs; 3. Bayan Ulgii; 4. Arkhangai; 5. Dornod; 6. Tuv; 7. Khentii; 8. Bulgan; 9. Selenge; 10. Dundgovi; 11. Darkhan-Uul; 12. Khuvsgul; 13. Ovorkhangai; 14. Bayankhongor; 15. Zavkhan.

³¹ In southern Khovd *Aimag* or in other *Aimags*, United Nations Development Programme Mongolia. 2021. *Improving Adaptive Capacity and Risk Management of Rural Communities in Mongolia*. Ulaanbaatar; ADB. Mongolia: Climate-Resilient and Sustainable Livestock Development Project; and ADB. Mongolia: Vegetable Production and Irrigated Agriculture Project.

³² UNDP Mongolia. 2021. *Improving Adaptive Capacity and Risk Management of Rural Communities in Mongolia*. Ulaanbaatar; ADB. Mongolia: Climate-Resilient and Sustainable Livestock Development Project; and ADB. Mongolia: Vegetable Production and Irrigated Agriculture Project.

standards, land management especially for low-carbon and climate change resilient urbanization process; (b) supporting the reorganization and capacity building of targeted *aimags*' urban functions; (c) develop a smart and comprehensive integrated digital management system for land and resources management and food safety.(d) improving the urban service provider's organizational, operational, and financial capacity; (e) rehabilitating the urban areas in their role as catalysts for a vibrant low-carbon agribusiness value chain and increased private sector participation; (f) study a model to upgrade substandard *aimag* centers in *ger* areas; (g) promoting a just low-carbon and clean energy transition; and (h) establishing low-carbon and climate-resilient *soum* and inter-*soum* development model as support to the rural economic renewal.

- (ii) **Strategic objective 2** by improving low-carbon and climate-resilient rangeland and livestock management through (a) regulatory mechanisms to number each animal species depending on the pasture land capacities of each territory, (b) a collective system of managing pasture land use and fodder production to stop land degradation due to overgrazing, (c) defined restricted areas and restricted grazing periods for goats, (d) improved veterinary and breeding services and traceability, (e) improved livestock resilience and productivity, (f) integrated certification system at each level of the livestock value chain, (g) improved grazing practices, (h) technical and financial support to organizations and operation of herder's cooperatives, (i) provision of incentives for low-carbon livestock management investments and practices by the private sector, (j) improved livestock commercialization and link between livestock product and local agri-value chain, (k) promotion of better management of natural resources through improved irrigation system and water conservation measure and solution, (l) increased and improved fodder or forage production and encourage reserve of strategic land at each *soum*, (m) program activities that aim to prevent further degradation of rangeland areas and allow soil carbon stocks to increase, (n) reduction of herd size, and (o) improve national food safety and sustainable food supply.
- (iii) **Strategic objective 3** through policy reforms to promote LCLVC through (a) innovative financial instruments including collateral substitutes and credit guarantees that enable herders and agriculture cooperatives to participate more fully in the value chain; (b) establishment and operationalization of a regional agribusiness fund that blends private sector investments with limited public sector investments to finance herders' cooperatives and livestock agribusiness enterprises engaged in low-carbon sustainable rangeland management, urban–rural linkages, and economic diversification; and (c) formulation of a system of reimbursable grants to the private sector to incentivize the adoption and commercialization of innovations linked to LCLVC.
- (iv) **Strategic objective 4** through policy reforms to establish sustainable and inclusive low-carbon climate-resilient territorial development through (a) systems and tools for optimizing land and territorial management; rangeland management including mechanisms for monitoring, reporting, and verification; strengthening cadastral capacity; and integrating support for *soum* and *aimag* territorial management; (b) formulation and dissemination of knowledge products, lessons learned, and contributions to the formulation of the new National Mongolian Livestock Program, law on rangeland, law on livestock number taxation, and on the livestock supply chain sustainable code of practices; (c) rural–urban development strategies including land use, urban function, hierarchies, and support to priority activities; (d) approaches to facilitate planning and implementation for water resilience in the

aimags and *soums*; and (e) knowledge creation and dissemination of the program's replicable mechanisms and upscaling, within and beyond Mongolia.

D. Investment Program

18. The investment program is aligned with the following impact: green development, regional development sustainability, quality of life, and human development achieved (footnote 14). The investment program will have the following outcome: green and inclusive agro-territorial development advanced.³³

19. **Output 1: Climate-resilient, low-carbon, and attractive *aimag* and *soum* centers developed.** This output will target development of priority infrastructure and services to support the transition of targeted *aimag* and inter-*soum* centers into anchors for LCLVC investments. It will address *aimags* and *soums* infrastructure gaps in order to support green agri-business development and agricultural sector based on the locations for agricultural logistics and supply centers, industries, and clusters identified by the MED. It will employ a comprehensive and integrated approach to address urban service deficiencies (such as district heating, drainage and flood protection, power, roads, waste collection and treatment, wastewater treatment, and water supply) and improve the living conditions in *aimag* and inter-*soum* centers. The output will promote low-carbon solutions through the use of renewable energy and energy efficient urban services and building. . In each targeted *aimag* and *soum* center, an agro-industrial park dedicated to LCLVCs will be developed, including utilities to attract processing activities and an incubator center.³⁴ Finally, a smart land management center will improve land and urban management; and monitor rangeland health, water availability, and soil carbon sequestration.³⁵

20. **Output 2: Climate-resilient, high-carbon sequestration, and sustainable rangeland management implemented.** This output will support vulnerable herder groups and empower them with sustainable livestock management practices (e.g., improved grazing practices, balanced herd composition, reduced herd size, and improved animal breeding) to reverse rangeland degradation while producing high-value agricultural products. The output will support the implementation of community-based investment projects for participating herder groups belonging to PUGs that have signed RUAs and are included in the participatory and inclusive herd management plan (PIHMP); provide financial support to cooperatives of participating PUGs; establish a certification system and process; and provide incentives to reduce herd sizes, improve livestock commercialization, create an adequate herd structure, improve livestock breeding, and increase fodder production. Primary works for irrigated perimeters and water conservancy solutions will enable the expansion of fodder production and increase herders' capacity to cope with water shortages induced by climate change. Animal health and veterinary services will be strengthened at each level of the agribusiness chain to develop a reliable animal health control and traceability system. This include supporting the construction of veterinary laboratories in the locations identified by the MED to support the agricultural production, supply and logistic clusters. Critically, the certification system and improved animal quality and health will attract LCLVC investments; link certified herders, cooperatives, and PUGs; and sustain herders' improved livelihoods.

³³ The design and monitoring framework is in Schedule 2.

³⁴ Agro-industrial parks will boost food exports and local economies by bringing processing facilities to the point-of-need (thereby shortening processing circuits, decreasing the carbon footprint of livestock value chains, and tightening geographic and economic integration between herders, rangeland management, and the food industry). Agricultural production, supply and logistic clusters identified by the MED will be prioritized.

³⁵ Rangeland health refers to the set of environmental conditions that sustain rangeland productivity and biodiversity.

21. **Output 3: Accessible financing for low-carbon and climate-resilient livestock value chains created (financial intermediation loan component).** This output will establish the Green and Inclusive Regional Agribusiness Fund (GIRAF) to provide climate-smart financial mechanisms and institutions to overcome the financial bottlenecks of agribusiness SMEs in the targeted areas, especially in the agricultural production, supply and logistic clusters defined by the MED.³⁶ The GIRAF will be used to attract private sector participation in LCLVCs. The GIRAF will use innovative financial products such as (i) loans with affordable interest rates, longer grace periods and tenors, higher values, and a customized repayment plant that take into account the production cycle and its seasonality which will help SMEs overcome the financial barriers described in para. 4 and will increase LCLVC investments;³⁷ (ii) credit guarantees that will be used as a substitute for collateral in lending and will reduce the risks of financiers, thereby contributing to more affordable interest rates and facilitating access to the GIRAF loans; and (iii) reimbursable innovation grants to stimulate pioneering agribusiness enterprises to advance innovative green products, processes, and business models. The GIRAF will support investments that demonstrate clear supply linkages and/or profit-sharing mechanisms with herders, PUGs, and cooperatives that are certified in sustainable rangeland management, and preferably located in agro-industrial parks that support local development and exports.

22. **Output 4: Institutional capacity and policies for low-carbon and climate-resilient agro-territorial development strengthened.** The output will focus on building the government and main stakeholders' capacity³⁸, especially in the priority locations identified by MED, to ensure efficient program management and implementation. Output 4 (i) will establish soft tools and plans necessary for the implementation of other program outputs such as the PIHMP, the low-carbon and climate-resilient agribusiness development plan (LCADP), the green urban development and certification and traceability systems; (ii) support the design, installation, and operationalization of the program's measurement, reporting, verification, and monitoring and evaluation systems; and (iii) explore public-private partnership arrangements especially related agro-industrial park management. It will implement the program policy framework to strengthen the government's capacity to formulate, implement, and enforce policies and plans that are conducive to integrated green agro-territorial development, as well as climate-smart livestock husbandry, rangeland management, and urban development. The output will conduct policy dialogues and advocacy for

³⁶ The GIRAF will be established following the Law of Mongolia on Investment Funds (2013) and the eligibility criteria for financial intermediation loans (FILs) as per ADB. 2003. *Financial Intermediation Loans. Operations Manual*. OM D6/BP. Manila. Based on a participatory and consensus-building process with all local stakeholders, the low-carbon and climate-resilient agribusiness development (LCADP) will identify priority investments and activities at the *aimag* and *inter-soum* levels necessary to develop LCLVCs.

³⁷ The GIRAF will have three lending windows. Window 1 will provide three categories of loans at estimated interest rates ranging from 7.0% to 8.5% per annum and terms of up to 10 years, to support SMEs engaged in livestock processing, commercial and logistic investments for retail and exports, and other forms of economic diversification. To be eligible, subprojects should be implemented by SMEs in partnership and profit-sharing agreements with certified herders' cooperatives and should be included in the LCADP. Window 2 will provide loans at an estimated 10%–12% per annum to qualified medium and large enterprises involved in livestock production, processing, distribution and marketing, and international trade. The proposed agribusinesses should demonstrate congruence and consistency with the LCADP. Window 3 will be piloted for potential expansion for microfinance that will be channeled through savings and credit cooperatives to certified herders engaged in microenterprises, a majority of which are home-based. Details of financing terms and conditions are in Box 4 and Appendix 3 of the FAM and in Annex 1 of this FFA (accessible from the list of linked documents in Appendix 2 of the RRP).

³⁸ This includes professional associations of the agricultural sector, academics, herdsman, farmers, the private sector, and SMEs.

the program's green agro-territorial model replication inside and outside of Mongolia, and explore a partnership for low-carbon and climate-resilient rangeland management in Central Asia.³⁹

E. Financing Plan

23. The program is estimated to cost \$735.0 million. The investment component of the program, comprising outputs 1, 2, and 4, will cost \$617.4 million (Table 1). Output 3, which will be delivered through an FIL component will require an estimated \$117.6 million. Detailed cost estimates by expenditure accounts and by financiers are included in the facility administration manual (FAM).⁴⁰ The investment component will cover civil works, equipment, support to PUGs and cooperatives, design and construction supervision, project implementation and management support, safeguards and due diligence, and consulting services.

Table 1: Summary Cost Estimates
(\$ million)

Item	Amount ^a
A. Base Costs^b	
1. Output 1: Climate-resilient, low-carbon, and attractive <i>aimag</i> and <i>soum</i> centers developed	395.7
2. Output 2: Climate-resilient, high-carbon sequestration, and sustainable rangeland management implemented	99.2
3. Output 4: Institutional capacity and policies for low-carbon and climate-resilient agro-territorial development strengthened	38.5
Subtotal (A)	533.4
B. Contingencies^c	59.3
C. Financial Charges During Implementation^d	24.7
Total (A+B+C)	617.4

^a Includes taxes and duties estimated at \$48.0 million for the investment program and \$16.2 million for tranche 1. Such amount does not represent an excessive share of the investment program cost. The government will finance taxes and duties through tax exemptions.

^b In 2020 prices as of 30 November 2020.

^c Physical contingencies computed at 5% for civil works, goods, and consulting services. Price contingencies computed at average of 1.4% on foreign exchange costs and 6.4% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Includes service fees, and interest and commitment charges. Interests during construction have been computed (i) at the 5-year United States dollar fixed swap rate plus an effective contractual spread of 0.5% and maturity premium of 0.1% for the ordinary capital resources loan, and (ii) at 2% per annum for the concessional ordinary capital resources loan. The financing charges for the Green Climate Fund loan used a service fee of 0.25% per annum and a commitment fee of 0.50% of the undisbursed portion of the loan. Financing charges during implementation for the European Investment Bank loan were also calculated based on the 5-year United States dollar fixed swap rate.

Source: Asian Development Bank estimates.

24. **Financing plan.** The government has requested an MFF in an amount of up to \$448 million from a blend of regular loans (\$135 million) and concessional loans (\$135 million) from ADB's ordinary capital resources, a grant (\$3 million) from ADB's Special Funds resources (Asian Development Fund [ADF]), and cofinanced loan (\$130 million) and grant (\$45 million) from the GCF to be administered by ADB, to help finance a part of the investment program. The European Investment Bank will provide cofinancing (non-ADB-administered) comprising a loan of up to \$150 million equivalent and a grant of up to \$30 million equivalent.⁴¹ The government will finance \$75.3 million, including taxes and duties, resettlement, civil works, equipment, consulting services, project management, and other miscellaneous costs. The investment project component comprises outputs 1, 2, and 4 and will cost \$617.4 million. Output 3 will be delivered through an FIL component for which the government will invest \$87.6 million of the GCF loan

³⁹ See Box 6 of the FAM (accessible from the list of linked documents in Appendix 2 of the RRP).

⁴⁰ FAM (accessible from the list of linked documents in Appendix 2 of the RRP).

⁴¹ The grant from the Asia Investment Facility of the European Union is administered by the European Investment Bank.

proceeds into the GIRAF. In addition, the \$5.0 million GCF grant will be passed on to the government's green innovation grants facility as reimbursable grants to qualified investors to promote innovations in green and inclusive agribusiness. The Development Bank of Mongolia Asset Management SC LLC will manage the GIRAF, which will serve as the apex financial institution for the program funds to be channeled through financial intermediaries based on eligibility and selection criteria.⁴² The GCF loan proceeds will leverage financial contributions from private entrepreneurs, Development Bank of Mongolia, and other participating commercial banks estimated at \$25.0 million. The contribution from beneficiary households is estimated at \$6.7 million. The MFF will consist of three tranches, subject to the government's submission of related periodic financing requests, execution of the related loan and project agreements for each tranche, and fulfillment of terms and conditions and undertakings set forth in this framework financing agreement.

Table 2: Summary Financing Plan
(\$ million)

Source	Tranche (estimated year of PFR submission)			Amount	Share of Total (%)
	1 (2021)	2 (2024)	3 (2026)		
A. Investment Project Component					
1. Asian Development Bank					
(i) OCR (regular loan)	45.0	50.0	40.0	135.0	18.4
(ii) OCR (concessional loan)	45.0	52.2	37.8	135.0	18.4
(iii) Special Funds resources (ADF grant)	3.0	0.0	0.0	3.0	0.4
2. Green Climate Fund (loan) ^a	11.8	18.4	12.2	42.4	5.8
3. Green Climate Fund (grant) ^a	22.0	10.8	7.2	40.0	5.4
4. European Investment Bank (loan) ^b	52.9	59.4	37.7	150.0	20.4
5. European Investment Bank (grant) ^b	10.5	11.4	8.1	30.0	4.1
6. Government of Mongolia	20.7	33.5	21.1	75.3	10.2
7. Beneficiaries	3.4	2.0	1.3	6.7	0.9
Subtotal (A)	214.3	237.7	165.4	617.4	84.0
B. Financial Intermediation Loan Component					
1. Green Climate Fund (loan) ^a	38.4	29.6	19.6	87.6	11.9
2. Green Climate Fund (grant) ^a	3.0	1.2	0.8	5.0	0.7
3. DBM/Commercial banks/Private sector	14.3	7.5	3.2	25.0	3.4
Subtotal (B)	55.7	38.3	23.6	117.6	16.0
Total (A+B)	270.0	276.0	189.0	735.0	100.0

ADF = Asian Development Fund, DBM = Development Bank of Mongolia, OCR = ordinary capital resources, PFR = periodic financing request.

^a Administered by the Asian Development Bank.

^b Parallel cofinancing, not administered by the Asian Development Bank

Source: Asian Development Bank estimates.

25. Climate mitigation is estimated to cost \$114.2 million and climate adaptation is estimated to cost \$113.8 million under the MFF from ADB and ADB-administered funds. Based on the comprehensive program climate risk assessment, the extra grant from the ADF 13 thematic pool will be used to strengthen capacity, raise awareness, and improve the regulatory and institutional framework, build resilience focusing on vulnerable populations and ecosystem, and design innovative solutions such as green agro-territorial model, or ecosystem-based solutions. Details are in the FAM (footnote 38).

⁴² Apex mechanisms usually involve financial institutions through which development partner-funded FILs are channeled to a second layer of financial intermediaries, which in turn onlend such loan proceeds to subborrowers.

SCHEDULE 2

DESIGN AND MONITORING FRAMEWORK FOR THE INVESTMENT PROGRAM

Impact the Investment Program is Aligned with Human development, quality of life, green development, and regional development sustainability achieved (Vision 2050: Long-Term Development Policy of Mongolia) ^a			
Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
Outcome Green and inclusive agro-territorial development advanced	By 2033 a. 3.2 million tons of carbon dioxide equivalent per annum avoided through soil carbon sequestration and methane, nitrous oxide, and carbon dioxide emissions reduced (2020 baseline: 0) (OP 3.1) b. 28.8 million ha of rangeland improved and more sustainably managed (2020 baseline: 0) (OP 3.3.3) c. Climate and disaster resilience of 550,000 people strengthened (2020 baseline: 0) (OP 3.2, 3.3, 4.1) d. 500 SMEs or cooperatives and 1,000 microenterprises established under the GIRAF (2020 baseline: 0) (OP 1.2, 2.1, 5.2.3) e. 11,400 direct green jobs created, of which 40% are filled by women (2020 baseline: 0) (OP 1.2, 2.1) f. Number of livestock heads in targeted areas decreased by 2.5% per annum (2020 baseline: 2.5% per annum growth) g. Wastewater treatment efficiency in targeted <i>aimag</i> and <i>soum</i> centers improved to 90% (2020 baseline: 50% in targeted <i>aimag</i> centers and 0% in targeted <i>soum</i> centers) (OP 4.3)	a–b. ALAMGAC and National Agency for Meteorology and Environmental Monitoring externally verified MRV report, and MOFALI annual report on livestock and land use c. ALAMGAC local land officer and <i>soum</i> government report d–e. Audited financial and operational reports from beneficiary enterprise or qualified commercial bank, and oversight reports from FRC f. National Statistics Office annual data on livestock g. <i>Aimag</i> water and wastewater operating companies' measurement of biological oxygen demand removal in the effluent discharge in compliance with Mongolian standards MNS 4943:2011	R: Changed government priorities shift resources away from supporting <i>aimag</i> development A: EIB inputs and outputs timely delivered
Outputs 1. Climate-resilient, low-carbon, and attractive <i>aimag</i> and <i>soum</i> centers developed	By 2032 1a. 35 km of urban roads built and 215.9 km of connection roads improved; water supply capacity increased by 3,000 cubic meters per hour; 25 km of water supply pipes laid; 35 km of sewerage network laid; 16 km of district heating pipes laid; 135 km of power lines built; 20 km of drainage pipes built; 173.5 km of optical cable laid; 10.2 megawatts from solar panels installed; 15.2 km flood protection infrastructure built; and 1,230 ha of solid waste dump site cleared (2020 baseline: 0) ^b (OP 4.1.2) 1b. Existing open dump site cleaned and closed, and municipal solid waste segregated and safely disposed of at new landfills in 12 <i>aimag</i> and <i>soum</i> centers (2020 baseline: 0) (OP 4.1.1) 1c. Pilot for <i>ger</i> area streets upgrading implemented and replicated (2020 baseline: 0) (OP 3.1.3, 4.1.2) 1e. 90 ha of agro-industrial parks developed and 12 agribusiness incubators operating, with at least 40% of workspaces allocated to women-led and/or owned businesses (2020 baseline: 0) (OP 5.2.3)	1a–i. Mongolia state special inspection monitoring report, and <i>aimag</i> and <i>soum</i> governments' report on urban construction	R: Reduced cooperation and coordination among the project key stakeholders R: Rising world prices of energy and construction materials significantly increase the project's investment and operation and maintenance costs A: Significant interest from

Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
	<p>1f. 12 domestic WWTPs with a total capacity of 30,000 m³/d meet Mongolian standards; and 12 agro-industrial park WWTPs with a total capacity of 12,500 m³/d constructed and/or upgraded (2020 baseline: 0) (OP 4.1.2, 4.3.1)</p> <p>1g. Heat metering and associated consumption-based tariffs implemented in targeted <i>aimag</i> and <i>soum</i> centers (2020 baseline: 0) (OP 4.1.1, 6.2)</p> <p>1h. Smart land and agriculture management and climate-responsive digital center built (2020 baseline: 0) (OP 3.3.3, 4.2)</p> <p>1i. At least 6 school dormitories improved with gender-sensitive WASH facilities^d (2020 baseline: 0) (OP 2.4.1, 4.1.2)</p> <p>1j. 100,000 person-months of employment opportunities during project construction created, of which 20.0% are filled by women (2020 baseline: 17.2% of women in the construction sector) (OP 1.2, 2.1)</p>	<p>1j. Contractors' annual employment records</p>	<p>herders' cooperatives and private sector to participate in project activities</p> <p>A: Compliance with the program road map</p> <p>A: Timely delivery of EIB inputs and outputs</p>
<p>2. Climate-resilient, high-carbon sequestration, and sustainable rangeland management implemented</p>	<p>By 2032</p> <p>2a. At least 180 PUGs and herder groups signed (by both spouses) the updated RUA and sustainable and inclusive pasture management plan and benefited from CPP activities, with 45% female participation (2020 baseline: 0) (OP 5.1, 6.2.4)</p> <p>2b. 60 PUG-based cooperatives established, with at least 30% led by women;^e and 12 <i>aimag</i> and inter-<i>soum</i> centers, 6 <i>aimags</i>, and 1 regional cooperative organized (2020 baseline: 23%) (OP 2.3, 5.1)</p> <p>2c. 12 disease-free establishments, 6 <i>aimag</i>-, and 6 inter-<i>soum</i>-level veterinary laboratories built (2020 baseline: 0) (OP 5.2.4)</p> <p>2d. Primary works for the irrigated perimeter of a 2,500 ha fodder farm built, including ecosystem-based water harvesting and conservancy solutions (2020 baseline: 0) (OP 3.3.2, 3.3.5, 5.1.1)</p> <p>2e. 8,000 person-months of employment opportunities during project construction created, of which 20% are filled by women (2020 baseline: 0) (OP 1.2)</p>	<p>2a. <i>Aimag</i> and <i>soum</i> governments' monitoring data on land management, and ALAMGAC RUA registration data system</p> <p>2b. <i>Aimag</i> and <i>soum</i> governments' reports, and MOFALI annual reports on cooperatives</p> <p>2c–d. <i>Aimag</i> and <i>soum</i> governments' reports on livestock and rural development, and Mongolia State Special Inspection monitoring reports</p> <p>2e. Contractors' annual employment records</p>	
<p>3. Accessible financing for low-carbon and climate-resilient livestock value chains created (financial intermediation loan component)</p>	<p>By 2032</p> <p>3a. Under window 1, loans, subloans, or loans plus credit risk guarantees of at least \$50 million provided for SME investments, of which at least 30% led by women, in targeted <i>aimag</i> and inter-<i>soum</i> centers, through PUGs and herder groups (2020 baseline: 0)^f (OP 1.3.2, 2.1.2, 5.2.3)^g</p> <p>3b. Under window 2, loans, subloans, or loans plus credit risk guarantee of at least \$60 million provided for medium and large investments in targeted <i>aimag</i></p>	<p>3a–e. Audited financial and operational reports from beneficiary enterprises or qualified commercial banks, and oversight reports from FRC</p>	

Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
	<p>and inter-<i>soum</i> centers, through PUGs and herder groups (2020 baseline: 0) (OP 1.3.2, 5.2.3)^h</p> <p>3c. Under window 3, 1,000 micro green loans approved through savings and credit cooperatives and other nonbank financial institutions (2020 baseline: 0) (OP 1.3.2)</p> <p>3d. 100 partnership agreements signed with SMEs, of which at least 30% led by women, investing in pre-processing facilities (2020 baseline: 0) (OP 2.1.3, 5.2.3)</p> <p>3e. At least \$5 million reimbursable grants from Green Innovation Grant Facility provided to qualified investors to promote green and inclusive innovations in agribusiness (2020 baseline: 0) (OP 5.2.3)</p>		
4. Institutional capacity and policies for low-carbon and climate-resilient agro-territorial development strengthened	<p>By 2032</p> <p>4a. By 2031, at least 180 (PUG-level) PIHMPs and at least 60 (<i>soum</i>-level) low-carbon and climate-resilient agribusiness development plans developed and consolidated into 6 <i>aimag</i> level and 2 regional-level agro-territorial development plans (2020 baseline: 0) (OP 6.1.2)</p> <p>4b. By 2024, traceability and certification systems at herder-, PUG-, and cooperative-levels operational, with 40% of targeted herder groups and PUGs certified (2020 baseline: 0) (OP 5.2.4)</p> <p>4c. By 2031, at least 180 community-based animal health workers trained, of which 95% report improved knowledge and skills on veterinary services and 50% are women (2020 baseline: 0) (OP 5.3.1)</p> <p>4d. By 2032, 6 national policies for rangeland management and green territorial development prepared and implemented, and 2 policy recommendations included in the revised National Mongolian Livestock Program (2020 baseline: 0) (OP 3.3.2, 6.1.2)</p> <p>4e. By 2024, business plan and technical specification template for investments supported by GIRAF developed; and training programs for agribusiness development held, of which 40% are women (2020 baseline: 0) (OP 2.1.1)</p>	<p>4a–d. MOFALI policy department reports, and local governments' reports on urban construction and economic development</p> <p>4e. FRC, DBM, and project implementation reports</p>	
<p>Key Activities with Milestones</p> <p>1. Climate-resilient, low-carbon, and attractive <i>aimag</i> and <i>soum</i> centers developed</p> <p>1.1 Complete infrastructure and detailed architectural design (2023–2029)</p> <p>1.2 Pilot the <i>ger</i> street development voluntary participation (2023–2029)</p> <p>1.3 Procure goods and works (2024–2030)</p> <p>1.4 Construct, supervise, and commission infrastructure, and socio-economic facilities (2025–2032)</p> <p>2. Climate-resilient, high-carbon sequestration, and sustainable rangeland management implemented</p> <p>2.1 Engage and consult with herders, PUG, and herder groups to ensure their participation (2023–2031)</p> <p>2.2 Complete detailed design for irrigated perimeters and storage facilities (2023–2029)</p> <p>2.3 Prepare and sign PUG and herder groups' RUA including PIHMP (2023–2031)</p> <p>2.4 Establish or upgrade cooperatives (2024–2032)</p> <p>2.5 Procure goods and works (2024–2030)</p>			

<p>2.6 Procure and implement CPP (2024–2032)</p> <p>2.7 Construct, supervise, and commission infrastructure (2025–2032)</p> <p>3. Accessible financing for low-carbon and climate-resilient livestock value chains created (financial intermediation loan component)</p> <p>3.1 Establish the GIRAF (2023–2024)</p> <p>3.2 Finalize the green and inclusive agri-value chain development plan (2023–2029)</p> <p>3.3 Reach out to local businesses and receive bidding proposals for financing (2024–2031)</p> <p>3.4 Short-list commercial banks (2024–2030)</p> <p>3.5 Establish and implement environmental and social management system for each commercial bank (2024–2031)</p> <p>3.6 Select proposals for financing (2024–2031)</p> <p>3.7 Construct production and logistic facilities or establish businesses (2024–2031)</p> <p>4. Institutional capacity and policies for low-carbon and climate-resilient agro-territorial development strengthened</p> <p>4.1 Capacity building and policy reforms</p> <p>4.1a Train and increase capacity of PIU staff, targeted institutions and all related stakeholder in the agricultural sector on project implementation safeguards and due diligence (2023–2030)</p> <p>4.1b Implement policy and sector reforms (2023–2031)</p> <p>4.2 Detailed design and supervision</p> <p>4.2a Hire detailed design and supervision consulting services (2023–2027)</p> <p>4.2b Prepare feasibility study for tranches 2 and 3 (2025–2028)</p> <p>4.2c Complete detailed design of all civil works under project 1 and update safeguard documents, including the initial environmental examination, land acquisition and resettlement plans, and voluntary participation plans (2024–2029)</p> <p>4.2d Supervise civil works construction and monitor implementation of safeguard provisions (2024–2032)</p> <p>4.2e Implement policy and sector reforms (2024–2031)</p> <p>4.3 Rangeland management</p> <p>4.3a Hire consulting services (2023–2027)</p> <p>4.3b Engage with herders, herder groups, and PUGs (2023–2031)</p> <p>4.3c Complete detailed design of irrigated perimeters and disease-free facilities (2023–2029)</p> <p>4.3d Train PUGs and herder groups and implement CPP activities (2023–2031)</p> <p>4.3e Train cooperatives (2024–2031)</p> <p>4.3f Implement policy and sector reforms (2024–2031)</p> <p>4.4. Green agribusiness finance</p> <p>4.4a Hire consulting services (2022–2028)</p> <p>4.4b Develop standards, guidelines, and regulations for GIRAF (2023–2024)</p> <p>4.4c Implement policy and sector reforms (2024–2031)</p>
<p>Investment Program Management Activities</p> <p>Establish and fully staff the PIU.</p> <p>Hire project implementation and management support consulting services.</p> <p>Fully train PIU staff on ADB safeguards, due diligence, procurement, and financial management.</p> <p>Perform day-to-day management and supervision during program implementation.</p> <p>Coordinate with government agencies, <i>aimag</i> governments, and other involved parties for program implementation.</p> <p>Manage consulting services, monitor deadlines for procurement packages, and implement key procurement activities.</p> <p>Monitor civil works and infrastructure implementation.</p> <p>Meet targets in the design and monitoring framework, social and gender action plan, consultation and participation plan, stakeholder communication strategy, and facility administration manual.</p> <p>Complete and operate sex-disaggregated project performance management system and comprehensive MRV system.</p> <p>Prepare and submit ADB, EIB, and Green Climate Fund relevant progress, safeguards, and financial audit reports.</p> <p>Conduct inception, annual, midterm, and final review missions.</p> <p>Prepare tranches 2 and 3, including due diligence (tranche 2 by 2024 and tranche 3 by 2026).</p>
<p>Inputs</p> <p>ADB ordinary capital resources: \$135.0 million (regular loan)</p> <p>ADB ordinary capital resources: \$135.0 million (concessional loan)</p> <p>ADB Special Funds resources (Asian Development Fund): \$3.0 million (grant)</p> <p>Green Climate Fund: \$130.0 million (loan)</p> <p>Green Climate Fund: \$45.0 million (grant)</p> <p>European Investment Bank: \$150.0 million (loan)</p> <p>European Investment Bank: \$30.0 million (grant)</p> <p>Government of Mongolia: \$75.3 million</p> <p>DBM/commercial banks/private sector: \$25.0 million</p> <p>Beneficiaries: \$6.7 million</p>

A = assumption; ADB = Asian Development Bank, ALAMGAC = Agency for Land Management and Administration, Geodesy and Cartography; CPP = community participation in procurement; DBM = Development Bank of Mongolia; EIB = European Investment Bank; FRC = Financial Regulatory Commission; GIRAF = Green and Inclusive Regional Agribusiness Fund; ha = hectare; km = kilometer; m² = square meter; m³/d = cubic meter per day; MOFALI = Ministry of Food, Agriculture and Light Industry; MRV = measurement, reporting, and verification; OP = operational priority; PIHMP = participatory and inclusive herd management plan; PIU = project implementation unit; PUG = pasture user group; R = risk; RUA = rangeland use agreement; SMEs = small and medium-sized enterprises; WASH = water, sanitation, and hygiene; WWTP = wastewater treatment plant.

^a State Great Khural. 2020. *Vision 2050: Long-Term Development Policy of Mongolia*. Ulaanbaatar.

^b Excludes agro-industrial park infrastructure.

^c A gender-sensitive public space refers to urban designs where women feel comfortable using the public space and is adapted to the needs and demands of both women and men, e.g., proper lighting, separate toilets, and signages.

^d Gender-sensitive WASH facilities have at least the following characteristics: separate male and female toilets with separate washbasins and bins, adequate lighting and privacy, and facilities adapted to young women/girls, including those with disabilities.

^e Cooperatives "led by women" must have (i) at least 51% female representation on the board, or (ii) a female executive director or board president and at least 30% female representation on the board. Swiss Agency for Development and Cooperation. 2021. *Sustainably Managed Pastures and Healthy Animals: Mongolia's 'Green Gold'*.

^f SMEs led by women refer to those owned and managed by women. Proxy baseline was from the results of 2019 World Bank Mongolia Enterprise Surveys: (i) 43.7% of firms have female participation in ownership, of which 45.9% are small, 40.0% are medium, and 32.4% are large firms; and (ii) 38.9% of firms have a female top manager, of which 44.4% are small, 26.9% are medium, and 24.4% are large firms. Men are predominant in large-scale business operations while women lead small businesses. Women are predominant in service-oriented industries and retailing and less involved in livestock agribusiness operations targeted by the program. Survey results by sector are not available.

^g Window 1 will support SMEs processing livestock products, commercial and logistic investments for retail and exports, and other forms of economic diversification.

^h Window 2 will support qualified medium- and large-scale enterprises involved in livestock production, processing, distribution, and marketing, and engaged in international trade.

Contribution to Strategy 2030 Operational Priorities

The expected values and methodological details for all OP indicators to which this operation will contribute results are detailed in Contribution to Strategy 2030 Operational Priorities (accessible from the list of linked documents in Appendix 2). In addition to the OP indicators tagged in the design and monitoring framework, this operation will contribute results for:

OP 1.3 Poor and vulnerable people with improved standards of living

OP 7.3.1 Measures to improve shared capacity of developing member countries to mitigate or adapt to climate change supported in implementation

OP 7.3.3 Measures to improve regional public health and education services supported in implementation

Source: ADB.

SCHEDULE 3

IMPLEMENTATION FRAMEWORK

A. Program Implementation Organizations: Roles and Responsibilities

1. The comprehensive scope and crosscutting issues of development and climate change in Mongolia require an integrated institutional arrangements, both vertically among the various levels of government (national, provincial, and local) and horizontally across inter-ministerial and intergovernmental agencies, combined with financial institutions, private sector groups, and civil society organizations. The program will be coordinated, monitored, and overseen by the Ministry of Economic Development (MED) which will insure the inter-ministries and inter-agencies coordination, as well as the policy and strategic roadmap. The MED will be the executive agency for the program.
2. A projects steering committee, comprised of representatives from the Ministry of Economic Development (MED) (Chair); Ministry of Construction and Urban Development (MCUD) (vice chair); Ministry of Food, Agriculture and Light Industry (MOFALI) (vice chair); Development Bank of Mongolia (DBM); Ministry of Finance; Ministry of Environment and Tourism; Development Bank of Mongolia Asset Management SC LLC (AMC-DBM); targeted *aimag* governments; and the European Union will be established to oversee program implementation, provide strategic and policy guidance, and coordinate efforts among ministries and agencies. The program executing agency will be the MCUD representing the government for program implementation oversight.
3. A project implementation unit (PIU) will be established under MED and MCUD, at the Agency for Land Management and Administration, Geodesy and Cartography. The PIU director will be MED state secretary. The PIU will be managed by a PIU coordinator who will report to the PIU director. A deputy coordinator will be appointed to oversee construction, supervision, and urban development activities of the program in close coordination with MCUD. A deputy coordinator will be appointed to oversee livestock and rangeland management component in close coordination with MOFALI. A deputy coordinator/fund manager will be appointed to manage the financial intermediation loan (FIL) component of the program at AMC-DBM under the supervision of DBM. The deputy coordinator/fund manager will report to the PIU coordinator and respond to AMC-DBM Chief Executive Officer. At the *aimag* level an *aimag* project implementation unit (APIU) will be established under the PIU in each *aimag* targeted by the program. Each will be managed by a monitoring and evaluation (M&E) officer who will lead the team of urban development, rangeland management, agribusiness, and safeguard and due diligence officers. The APIU will closely coordinate with the *aimag* governor's office and each targeted *soum* governor's office.
4. The roles and responsibilities of the PIU will be sent for no-objection or approval by the European Investment Bank. The official documents establishing the PIU will be shared with European Investment Bank.
5. The key positions such as PIU coordinator, deputy coordinators, finance officers, procurement officers, and M&E officers will be selected and appointed based on competitive selection procedures in compliance with the Asian Development Bank (ADB) procurement

policies with the Ministry of Finance regulations approved by the Minister's order No. 4.¹ Other key positions in the PIU such as urban development specialist, chief engineer, rangeland management specialist, and cooperative specialist, will be selected and appointed based on competitive selection procedures following ADB procurement policies of the executing and implementing agencies (ADB will oversee and will provide no-objection). Other positions in the PIU will be selected and appointed based on competitive selection procedures by the executing and/or implementing agencies with ADB's endorsement.

6. Because of National Federation of Pasture User Groups' (NFPUG) extensive experience, its long-term cooperation with the Swiss Agency for Development and Cooperation, and its role and network in establishing rangeland use agreements (RUAs) and organizing herder groups especially in the western *aimags*; it will have an important role during program implementation and will provide PIU staff to implement rangeland management activities. This represents about 796 person-months for project 1. A memorandum of understanding between the MCUD, MOFALI, and NFPUG will be signed to define the extent of the NFPUG participation in the program. Consulting services recruitment for outputs 1 and 4, will be led by MCUD, output 2 by MOFALI, and output 3 by AMC-DBM. Support for the establishment and operation of cooperatives and pasture user groups will be done through civil works and equipment investment, as indicated in the procurement plan. It will also be done through support for operation and maintenance, operation cost, working capital, and incentives for herds reduction representing a total estimated at \$4.9 million for the establishment and operation of cooperatives. Operation and maintenance support for *soum* and *aimag* pasture user group organizations is estimated at \$720,000. Details are provided in Appendix 1 of the facility administration manual.²

7. An agribusiness council, comprising of representatives of associations or federations for producing meat, wool, cashmere, skin, and hide products; Mongolian National Chamber of Commerce and Industry; herder organizations; representatives from all professional associations in the agricultural sector; and cooperatives will be established to provide economic and value chain development guidance and support to the PIU.

B. Investment Program Review

8. ADB will regularly field review missions to monitor project performance during implementation. ADB and the MED will (i) monitor the project's achievements using program performance management system (PPMS) through the use of indicators and targets covering both macro and micro issues; and (ii) review the institutional, administrative, technical, economic, and other relevant aspects that may have an impact on the performance of the project. The review will examine implementation progress and compliance with assurances in the legal agreements. The MCUD, MOFALI and DBM will report to MED who will conduct a general oversight of project implementation.

C. Monitoring

9. **Program performance monitoring.** PPMS indicators, their relevance, and monitoring practices will be discussed with the executing and implementing agencies and program beneficiaries during program implementation. Disaggregated baseline data for output and

¹ Regulation on the utilization of Government foreign loan proceeds, implementation, administration, financing, monitoring and evaluation of projects funded by these proceeds as approved by the Finance Minister's Order number 4 dated 11 January 2021.

² Facility Administration Manual (accessible from the list of linked documents in Appendix 2 of the report and recommendation of the President).

outcome indicators gathered during program processing will be updated and reported through quarterly and annual progress reports prepared by the PIU and AMC-DBM, and after each ADB review mission. The annual reports will provide information necessary to update ADB's program performance reporting system. At the start of program implementation, the PIU and AMC-DBM, with the program consulting services, will develop integrated PPMS procedures to generate data systematically on the inputs and outputs of the components, as well as the indicators to be used to measure the program's impact and outcome. The PIU and AMC-DBM will be responsible for monitoring and reporting on program performance. The basis for performance monitoring will be the design and monitoring framework (DMF) and the Green Climate Fund funding proposal logic framework, which identify performance targets for the impact, outcome, and outputs of the program. By collecting data from the sources identified in the DMF and GCF funding proposal logic framework, the PIU and AMC-DBM will report the performance of the program on an annual basis. Specific reporting requirements will be set out in the agreement between ADB and the government. The MCUD and AMC-DBM will collect the data, calculate the indicators, analyze the results, and prepare a brief report describing the extent to which the program is generating the intended outputs and outcome, as well as the overall impact of the program. Meanwhile, the agreed socioeconomic and environmental indicators to be used will be further enhanced to measure program impacts. The PIU and AMC-DBM will (i) refine and integrate the PPMS framework at the start of program implementation; (ii) confirm that targets are achievable; (iii) develop recording, monitoring, and reporting arrangements; and (iv) establish systems and procedures no later than 6 months after program inception.

10. **Compliance monitoring.** The compliance status of loan and program covenants will be reported and assessed through the semiannual progress reports and verified during ADB review missions.

11. **Safeguards monitoring.** The government and the MCUD and DBM/AMC-DBM will ensure that laws and regulations of Mongolia governing safeguards, as well as ADB's Safeguard Policy Statement (2009) are followed. The MCUD will ensure that all works contracts under the project incorporate provisions and budgets for safeguards plans implementation.

12. **Involuntary resettlement.** The government, through the MCUD, will (i) engage qualified and experienced external social safeguards experts under a selection process and terms of reference acceptable to ADB, to verify information produced through the social safeguards monitoring process, and facilitate the carrying out of any verification activities by such external experts; (ii) submit semiannual safeguards monitoring reports to ADB in respect of implementation of and compliance with involuntary resettlement safeguards including implementation of voluntary participation plans and implementation of an environmental and social management system (ESMS) as part of the FIL component; and (iii) disclose relevant information from such reports to the respective affected people. The external experts will submit semiannual monitoring reports during implementation to the MCUD and ADB and a completion report within 6 months after completion of all resettlement and voluntary participation activities.

13. **Environmental and social management system.** The government, through the DBM/AMC-DBM, will require each qualified commercial bank to submit semiannual ESMS monitoring reports to AMC-DBM for compilation and timely submission to ADB.

14. **Environmental management plan.** During construction, contractors will develop contractor environmental management plans (EMPs) with environmental management and internal monitoring systems based on the updated subproject EMP, undertake self-check activities, and fully cooperate with the environmental inspectors of the municipal specialized

inspection department and/or specialized inspection divisions of the districts. Contractors will submit monthly contractor EMPs implementation reports to the PIU. Subprojects EMP implementation coordination and verification for the construction and operation periods will be carried out routinely by the PIU with the support of the services of environment consultants. Periodic environmental impact monitoring will be carried out by the PIU through the services of a licensed institute or consultant. The results of subprojects' EMP implementation and environmental impact monitoring will be communicated to ADB through the annual project EMP monitoring and progress reports and summarized in the quarterly project implementation reports.³ The annual project EMP monitoring and progress reports will be disclosed on the ADB website.

15. **Gender and social dimensions monitoring.** Monitoring indicators for the social and gender action plan (SGAP) have been incorporated into the PPMS. Clear targets and indicators have been established and some indicators, such as those on employment, are also captured in the DMF. The regular project progress reports to ADB will include, at least semiannually, reporting on those indicators. Assistance will be provided for the PIU by the social development and gender consultants who will help to set up effective monitoring systems and work with the focal points in the PIU to ensure implementation of the SGAP. The SGAP will be monitored semiannually and reported via the quarterly project progress reports and during ADB review missions. The external monitoring agency will also monitor the implementation progress of SGAP and report through the semiannual external monitoring reports.

³ As and when necessary to report significant progress, implementation issues, or status of earlier identified problems.

SCHEDULE 4

SELECTION CRITERIA AND APPROVAL PROCESS FOR PROJECTS

Overall Process for Project Preparation and Approval

1. The program preparation has developed all relevant feasibility studies, due diligence, and safeguards for project 1, while the contents of the subsequent projects have been pre-defined and will be similar to project 1.
2. Preparation of subsequent projects will follow the scope indicated in Schedule 1 of this framework financing agreement and will include a climate change rationale for the targeted *aimags* together with commercial, economic, financial, legal, regulatory, social dimensions, and technical due diligence; and managing anticorruption aspects, capacity, fiduciary oversight, governance, implementation, procurement, safeguards, social risks, sustainability, and other matters. Due diligence will help the Asian Development Bank (ADB) determine whether the investments are ready for financing, i.e., whether they have been suitably prepared and can be implemented in compliance with the relevant ADB policies and agreed criteria, and whether an acceptable climate change rationale can be presented to the Green Climate Fund (GCF) for no-objection on the inclusion of each proposed *aimags* within a tranche geographical scope. Preparation will inform on the readiness and selection criteria, and the compliance decision filters for GCF loan and grant financing as indicated below.
3. **Readiness criteria:**
 - (i) The proposed tranche has passed the internal safeguard and due diligence review process of ADB.
 - (ii) Previously approved tranches that are under implementation are satisfactorily implemented and in compliance with the road map for the program, including relevant provisions concerning the program, and the terms and conditions of the ADB loan and grant agreements with respect to each tranche.
 - (iii) The government and the Ministry of Environment and Tourism (the GCF national designated authority) have expressed their commitment and willingness to proceed with the implementation of the relevant tranche.
 - (iv) Evidence of an acceptable climate rationale for the *aimags* where the tranches will be implemented.
 - (v) The tranche achieves a climate change benefit (CCB) exceeding 10% of the investment amount for mitigation-related activities (Box).
 - (vi) The tranche promotes donor coordination.
 - (vii) The tranche demonstrates direct water resources saving impacts.

Box: The Climate Change Benefit Indicator

The climate change benefit (CCB) indicator is a measure of climate change value for money. It is a monetized estimate of the main annual climate change benefits resulting from the program, linking the annual CCBs to the investment amount. An eligibility requirement for consideration in the program is that the CCB (see below for calculation) is at least 10% of the investment amount. This requirement means that CCB alone will earn back the capital investment in (at most) 10 years. Moreover, CCB will be used to select the investments with the highest CCB as percentage of the capital investment as the investments that will receive priority Green Climate Fund cofinancing, provided additional criteria below are met.

The monetary value of the CCB is calculated as the sum of three terms:

1. [Average annual carbon dioxide (CO₂) emissions (average over lifetime)] x [shadow price of CO₂]^a
2. [Annual amount of water saved / stored (average over lifetime)] x [shadow price of water]^b
3. [Δ annual value added / sheep unit] x [number of animals in sheep units]^c

The first term is a straightforward estimate of the monetary value of the greenhouse gas emission reductions achieved. The second term is an estimate of the value of the amount of water saved or stored, which is important for Mongolia given the shortage of water and the negative impact of climate change on water availability. The third term provides an estimate of how the animal productivity increase compensates for the need to reduce animal numbers to compensate for the reduction of the biomass productivity of grasslands.

^a The program will use the Asian Development Bank (ADB) shadow price for CO₂ of \$36.30/ton of carbon dioxide equivalent (tCO₂e) to be increased by 2% annually in real terms. This is comparable to the World Bank's shadow price of CO₂ of \$40.00/tCO₂e in 2020, increasing by 2.25%. To simplify, the program will use a constant value for the shadow price of CO₂, calculated by evaluating the ADB shadow price for greenhouse gas emission reductions in 2020 (\$39.62/tCO₂e).

^b For the shadow price of water, the program will use a value of \$0.55 per cubic meter of water stored or saved.

^c The first term will be evaluated as the difference between the average value added per animal (measured in sheep units), calculated over the last 5 years for which data are available, and the average value added per animal calculated over 5 years after the measures to reduce animal numbers and increase value added per animal have been implemented. The second term is the average number of animals (in sheep units), in 5 years after the measures have been implemented.

Source: ADB.

4. Selection criteria. Each investment will meet the following selection criteria and approval process:

- (i) align with agricultural logistics and supply centers, and agricultural production clusters models and selected locations formulated by the Ministry of Economic Development;
- (ii) technically feasible and includes a detailed report supporting its feasibility;
- (iii) economically feasible and financially sustainable;
- (iv) environmentally and socially sound and includes measures to mitigate any possible environmental and social impacts in accordance with the safeguard frameworks (Schedule 5) and the ADB Safeguard Policy Statement (2009). For each investment, a poverty and social analysis will be conducted in accordance with ADB's guidelines on poverty and social assessment;
- (v) sufficient counterpart funding has been allocated to timely and efficiently implement the investment in accordance with the overall implementation schedule; and
- (vi) do not finance new coal-based capacity for power and heat.

5. In addition, specific selection criteria, detailed investment eligibility, and decision criteria related to GCF financing to output 2 are listed in Annex 1. Under output 1, GCF will only finance renewable energy investments, such as solar panels.

SCHEDULE 5

POVERTY AND SOCIAL DIMENSIONS AND SAFEGUARD REQUIREMENTS

1. Mongolia will ensure that all the requirements prescribed in this Schedule, and the following social and safeguard frameworks and plans that have been prepared with respect to the Facility and the first tranche and of which the Asian Development Bank (ADB) has been provided full copies, and which are deemed incorporated herein by reference, are complied with during the processing and implementation of the components under the Facility.

- (i) environmental assessment and review framework, dated _____;
- (ii) resettlement framework, dated _____;
- (iii) indigenous peoples planning framework, dated _____;
- (iv) environmental management plan and resettlement plan, dated _____ for the first tranche;
- (v) environmental and social management system; and
- (vi) social and gender action plan dated _____.

2. The frameworks cover the facility-specific information and requirements in accordance with ADB's safeguard policies: (i) general anticipated impacts of the components or projects likely to be financed under the multitranche financing facility on the environment, involuntary resettlement, and indigenous peoples; (ii) safeguard criteria that are to be used in selecting components and projects; (iii) requirements and procedure that will be followed for screening and categorization, impact assessments, development of management plans, public consultation and information disclosure (including the 120-day disclosure rule, if required), and monitoring and reporting; and (iv) institutional arrangements (including budget and capacity requirements) and the client's and ADB's responsibilities and authorities for the preparation, review and clearance of safeguard documents.

3. Prior to the preparation of each periodic financing request, the applicability and relevance of each safeguard framework for environmental assessment, involuntary resettlement, and indigenous peoples will be reviewed and updated to ensure relevance and consistency with applicable country legal frameworks and ADB's safeguard policies, as amended from time to time.

4. In all cases, for each new periodic financing request preparation, the client will review ongoing projects to check on the status of compliance with the social and safeguard plans and frameworks, and submit the review reports to ADB, together with other required safeguard documents relevant to the components included in the tranche being processed. In any case, if major noncompliance is discovered in the course of the review of ongoing projects, a corrective action plan will be prepared and submitted to ADB.

SOCIAL AND GENDER ACTION PLAN

Objectives and Activities	Targets and Indicators	Responsible Agencies	Timeframe	Budget
<p>Output 1: Climate-resilient, low-carbon, and attractive <i>aimag</i> and <i>soum</i> centers developed</p> <p>1.1 Introduce eco-friendly solutions for heating, water, and sanitation systems for streets redevelopment pilots, including female-headed households</p>	<p>1.1.1. 80% of residents of the targeted pilot streets with improved water, sanitation, and heating systems (2020 baseline: 0)</p> <p>1.1.2. 80% of female-headed households with improved water, sanitation, and heating systems (2020 baseline: 0)</p> <p>1.1.3. 100% of secondary occupants of plots of targeted streets and 100% of female-headed households are given priority to apply for rent/rent-to-own/purchase of housing units (2020 baseline: 0)</p> <p>1.1.4. 100% households buying an apartment receive information on women's rights to register their name on the asset property right certificate (2020 baseline: 0)</p>	<ul style="list-style-type: none"> • MCUD • Social, gender, and community engagement specialists 	<p>2024–2028</p> <p>2025: 0%</p> <p>2026: 20%</p> <p>2027: 50%</p> <p>2028: 100%</p> <ul style="list-style-type: none"> • Information campaign in 2024–2028 • Female ownership target to be assessed in 2028 	Project construction and operation funds
<p>1.2 Introduce IEC campaign on eco-friendly technology to ensure appropriate use of technologies and optimize project benefits</p>	<p>1.2.1 Conduct an IEC campaign with all beneficiary households; at least 35% of recipients are poor households^d (2020 baseline: 0) and 50% are women (2020 baseline: 0)</p>	<ul style="list-style-type: none"> • MCUD • Social, gender, and community engagement specialists 	2024–2028	Project management support contract ^c
<p>1.3 Ensure participation of poor households, ethnic groups, and women in urban the planning</p>	<p>1.3.1. Ensure no less than 50% of participants are women in all mixed consultations and conduct at least two women-only workshops and/or focus group discussions on the design of the street pilots (2020 baseline: 0)</p> <p>1.3.2. Information flyers in Kazakh, Mongolian, and Tuva prepared and distributed, where necessary (2020 baseline: 0)</p> <p>1.3.3 Consultations with 80% of non-Kazakh households in Ulgii (2020 baseline: 0)</p> <p>1.3.4. Gender-sensitive public space and facilities constructed^e (2020 baseline: 0)</p>	<ul style="list-style-type: none"> • MCUD • Social, gender, and community engagement specialists 	<p>2024–2028</p> <p>2025: 25%</p> <p>2026: 50%</p> <p>2027: 75%</p> <p>2028: 100%</p>	Project construction and operation funds and project management support contract
<p>1.4 Ensure participation of poor households, ethnic groups, and women in street development councils and in the planning and management of the community center</p>	<p>1.4.1. Consultation and information sharing to all households on the constitution of street development councils, including poor households and ethnic groups (in particular non-Kazakh households in Ulgii and Kazakh households in Khovd) with at least 65% of households participating (2020 baseline: 0)</p>	<ul style="list-style-type: none"> • MCUD • Social, gender, and community engagement specialists 	2024–2028	Project management support contract ^f

Objectives and Activities	Targets and Indicators	Responsible Agencies	Timeframe	Budget
<p>1.5 All social amenities, rehabilitation works, and WASH facilities, include gender-, age-, and disability-responsive features</p>	<p>1.4.2. Information flyers in Kazakh, Mongolian, and Tuva prepared and distributed where necessary (2020 baseline: 0)</p> <p>1.4.3. At least 30% of primary groups' leaders forming the street development councils are from poor households^d (2020 baseline: 0)</p> <p>1.4.4. At least 50% of chairperson or vice-chairperson of street development councils are women (2020 baseline: 0)</p> <p>1.4.5. At least 45% of trained members of street development councils are women (2020 baseline: 0)</p> <p>1.4.6. Street development councils consult at least 80% of poor households and 80% of non-Kazakh households in Ulgii on planning and management of the community center (2020 baseline: 0)</p>	<ul style="list-style-type: none"> • Social, gender, and community engagement specialists • Engineering firm and/or architectural engineers 	<ul style="list-style-type: none"> • 2024: detailed design completed • 2028: 100% of works completed 	<p>Project construction and operation funds and project management support contract^c</p>
<p>2.1 Communication and consultations with poor and/or vulnerable households to ensure their inclusion in PUGs and RUAs and protect their right to pastureland</p> <p>2.2 Identify female-headed households in each PUG area and ensure they receive sufficient information on benefits of</p>	<p>Output 2: Climate-resilient, high-carbon sequestration, and sustainable rangeland management implemented</p> <p>2.1.1. 100% of herder households of targeted <i>soums</i> (subunits of an <i>aimag</i>) remain included within PUGs (2020 baseline: 100%)^f</p> <p>2.1.2. 25% of PUGs of Bayan-Ulgii, Khovd, and Uvs sign updated RUAs recognized by the Agency for Land Management and Administration, Geodesy and Cartography to protect the rights to pastureland of all herder households, particularly the poor herder households (2020 baseline: 17.5% of PUGs)</p> <p>2.1.3. Information flyers on the PUG/RUA/PIHMP/CPP approach and steps in Mongolian, Kazakh, and Tuva, prepared and distributed, where necessary (2020 baseline: 0)</p> <p>2.2.1. 100% of RUA updated and/or signed under the project include an annex where both spouses of signatory households sign the RUA (2020 baseline: 0)</p>	<ul style="list-style-type: none"> • MOFALI • PIU • Social, gender, and community engagement specialists • PUGs 	<ul style="list-style-type: none"> • Information flyers by 2024 • Other targets by 2028 <p>2028</p>	<p>Project management support contract^c</p> <p>Project management support contract^c</p>

Objectives and Activities	Targets and Indicators	Responsible Agencies	Timeframe	Budget
<p>PUG and RUA, inform women on PUG and RUA importance and increase women participation and leadership in the PUG system, and ensure both spouses of all herder households sign RUAs</p>	<p>2.2.2. At least 20% female leadership in PUG system (2020 baseline: 14.4% in Green Gold registered PUGs)^g</p>	<ul style="list-style-type: none"> • Social, gender, and community engagement specialists • PUGs 		
<p>2.3 Communication and consultations with women, poor and/or vulnerable households, and ethnic groups for the elaboration of the PIHMP</p>	<p>2.3.1. 60% of PUG households are consulted for the elaboration of PIHMP, including 60% of poor households and 60% of ethnic groups, where relevant (2020 baseline: 0)</p> <p>2.3.2. 40% of participants in awareness sessions, workshops, and training related to elaboration of PIHMP are women; or at least one women-only consultation in each PUG (2020 baseline: 0)</p> <p>2.3.3. 100% of PIHMPs include specific sections on needs of women and poor households and list priority projects for these populations (2020 baseline: 0)</p>	<ul style="list-style-type: none"> • MOFALI • PIU • Social, gender, and community engagement specialists • PUGs 	2028	Project management support contract ^c
<p>2.4 Projects financed through CPP benefit women and poor households</p>	<p>2.4.1. At least 60% of CPP-financed projects benefit poor households^h (2020 baseline: 0)</p> <p>2.4.2. At least 50% of CPP-financed projects benefit women^h (2020 baseline: 0)</p>	<ul style="list-style-type: none"> • MOFALI • PIU • Social, gender, and community engagement specialists • PUGs 	2024–2028	Project management support contract ^c
<p>2.5 Sustainable and PUG-based cooperatives are inclusive of poor herder households and women</p>	<p>2.5.1. Sustainable and PUG-based cooperatives include 70% of herder households of complying PUGsⁱ (2020 baseline: 0)</p> <p>2.5.2. At least 40% of women in cooperatives' annual all members meeting^j</p> <p>2.5.3. 30 PUG and/or herder group-based cooperatives established (5 <i>aimag</i>/inter-<i>soum</i> centers; 3 <i>aimag</i> cooperative organization; and 1 regional cooperative organization) (2020 baseline: 0) with at least 30% of female leadership in cooperatives (2020 baseline: 23% in the cooperatives registered by the Green Gold Project)^g</p>	<ul style="list-style-type: none"> • MOFALI • PIU • Social, gender, and community engagement specialists 	<ul style="list-style-type: none"> • Participation of women in annual all members meeting to be assessed in 2024–2028 • Female leadership in cooperatives to be assessed in 2024–2028 	Project management support contract ^c
<p>• Output 3: Accessible financing for low-carbon and climate-resilient livestock value chains created (financial intermediation loan component)</p>				

Objectives and Activities	Targets and Indicators	Responsible Agencies	Timeframe	Budget
3.1 Financial intermediary is designed to foster socioeconomic development of local communities	<p>3.1.1. One environmental and social management system developed and approved for the three financial intermediaries of the program (2020 baseline: 0)</p> <p>3.1.2. 100% of participating enterprises in the livestock sector established a form of cooperation with sustainable herder organizations (partnership agreements or sales and purchase agreements) (2020 baseline: 0)</p> <p>3.1.3. Criteria to prioritize proposals of enterprises include commitment/measures to hire local workforce (2020 baseline: 0)</p>	<ul style="list-style-type: none"> Development Bank of Mongolia Asset Management SC LLC 	2024–2028	Project management support contract ^c
3.2 Gender analysis included in assessment of private sector proposals in response to requests for proposals for targeted loans	<p>3.2.1. Criteria for assessing and prioritizing private sector proposals include (i) enhancement of employment opportunities for women—action plan for female recruitment; (ii) gender-responsive physical facilities, including separate toilet and changing facilities for female and male employees; and (iii) other gender and social benefits, such as gender-sensitive and gender-friendly working environments (2020 baseline: 0)</p> <p>3.2.2. 40% of SMEs investing in pre-processing facilities are led by women (2020 baseline: 0)</p>	<ul style="list-style-type: none"> Development Bank of Mongolia Asset Management SC LLC PIU Social, gender, and community engagement specialists 	2024 Female leadership in SMEs to be assessed in 2023–2027	Project management support contract ^c
3.3 All policies and practices of participating enterprises are consistent with national legislations and Law on Promotion of Gender Equality of Mongolia	<p>3.3.1. Commitment to respect national legislations and Law on Promotion of Gender Equality of Mongolia signed and is part of participating enterprises' proposals (2020 baseline: 0)</p> <p>3.3.2. Training conducted for participating enterprises on respective workplace free of sexual harassment and gender-based violence (2020 baseline: 0)</p> <p>3.3.3. No court case against participating enterprises related to gender issues (2020 baseline: 0)</p>	<ul style="list-style-type: none"> Development Bank of Mongolia Asset Management SC LLC Participating enterprises Social, gender, and community engagement specialists 	2024–2028	Project management support contract ^c
<p>• Output 4. Institutional capacity and policies for low-carbon and climate-resilient agro-territorial development strengthened</p>				
4.1 Gender-responsive capacity building and institutional strengthening	<p>4.1.1. By 2022, sex-disaggregated project performance management system established (2020 baseline: 0)</p> <p>4.1.2. By 2023 pre-feasibility, business plan, and technical specification template and training (of which 40% are attended by women) for investments supported by the GIRAF are developed (2020 baseline: 0)</p>	<ul style="list-style-type: none"> ADB Implementing agencies PIU 	2024–2028	Project management support contract ^c

Objectives and Activities	Targets and Indicators	Responsible Agencies	Timeframe	Budget
<p>4.1.3. At least 35% of PIU staff are female (2020 baseline: 0)</p> <p>• For outputs 1–3: Generating job opportunities</p> <p>5.1a Generate 300,000 person-months, including 100,000 person-months of skilled employment, at the construction stage and for operation and maintenance, and ensure women benefit from employment opportunities</p> <p>5.1b Ensure timely advertisement of job vacancies; contractors give priority to local people (pilot street and/or <i>soum</i> center residents), women, ethnic groups, and poor people for hiring in civil works</p>	<p>5.1.1. 20% of jobs at construction phase are first made available to women, and 20% of jobs are actually filled by women (2020 baseline: 17.2%)</p> <p>5.1.2. 20% of jobs are first made available to poor people (2020 baseline: 0)</p> <p>5.1.3. 60% of projects financed under CPP use local workforce, of which 60% are from poor households (2020 baseline: 0)</p> <p>5.1.4. Type of publicity and/or job advertisement done by contractors (i.e., posters, bulletin boards, and/or public boards notices in the pilot streets areas and/or <i>soum</i> centers) (2020 baseline: 0)</p>	<ul style="list-style-type: none"> Implementing agencies Social, gender, and community engagement specialists 	2023–2028	Project construction and operation funds
<p>5.2 Ensure provision of new jobs to local workforce including poor households and women, and skills and knowledge of poor households and women increased at operation phase</p>	<p>5.2.1. 176 businesses and 250 microenterprises benefit from the GIRAF support creating 3,850 direct green jobs, of which 300 are skilled jobs; 40% of both skilled and unskilled jobs are filled by women, 40% of unskilled jobs are filled by poor households (2020 baseline: 0)</p> <p>5.2.2. 3 incubators constructed in <i>aimag</i> centers and 2 incubators in <i>inter-soum</i> centers with a total of 80 workspaces and 40% of workspaces provided to women-led businesses (2020 baseline: 0)</p> <p>5.2.3. At least 30% of recipients of training programs for entrepreneurs in <i>soum</i> cooperatives and SMEs are women (2020 baseline: 0)</p> <p>5.2.4. 1,400 hectares of irrigated perimeters generating 80 jobs of which 20% go to women (2020 baseline: 0)</p>	<ul style="list-style-type: none"> Implementing agencies Participating enterprises 	<p>2023–2028</p> <p>GIRAF-generated jobs:</p> <p>2024: 0%</p> <p>2025: 10%</p> <p>2026: 30%</p> <p>2027: 65%</p> <p>2028: 100%</p> <ul style="list-style-type: none"> Incubators constructed and filled at 50% in 2025 and 100% in 2026 25% of irrigated perimeters built in 2025, 50% in 2026, 	Project management support contract ^c

Objectives and Activities	Targets and Indicators	Responsible Agencies	Timeframe and 100% in	Budget
<p>• For outputs 1–3: Measures to reduce potential risks, and strengthen management</p>				
6.1 Appoint a social and gender specialist at PIU level	6.1.1. Social and gender specialist engaged in the PIU with 102 person-months, and in each <i>aimag</i> PIU with 25.5 person-months (2020 baseline: 0) 6.1.2. All PIU staff trained by the social and gender specialist on gender-specific needs and priorities, and sex-disaggregated data collection and reporting (2020 baseline: 0)	<ul style="list-style-type: none"> • ADB • Implementing agencies • PIU 	2023	Project management support contract ^c
6.2a Conduct IEC campaign on HIV/AIDS/STI, sexual harassment, drugs, and human trafficking to contractors and workers	6.2.1. 100% of contractors and workers provided awareness training on HIV/AIDS/STI, drugs, and human trafficking prevention (2020 baseline: 0%)	<ul style="list-style-type: none"> • PIU • Implementing agencies and contractors • Social, gender, and community engagement specialists 	2025–2028	Project management support contract ^c
6.2b Public health and HIV prevention awareness conducted to community residents	6.2.2. Public health and HIV/AIDS/STI prevention awareness participants (disaggregated by sex), 50% women, 20% poor people (2020 baseline: 0%)			
6.2c Ensure implementation of core labor standards (i.e., equal pay for equal work, no child labor, etc.), and safety guidelines are stated in the contracts	6.2.3 Core labor standards are included in all civil works contracts (2020 baseline: 0)			
6.3 GRM and monitoring system to track possible complaints established	6.3.1. Women are appropriately informed about the mechanism (45% minimum female attendance to any meeting related to presentation of GRM) (2020 baseline: 0)	<ul style="list-style-type: none"> • PIU 	GRM system put in place in 2023	PIU

ADB = Asian Development Bank; CPP = community participation in procurement; GIRAF = Green and Inclusive Regional Agribusiness Fund; GRM = grievance redress mechanism; IEC = information, education, and communication; m² = square meter; MCUD = Ministry of Construction and Urban Development; PIHMP = participatory and inclusive herd management plan; PIU = project implementation unit; PUG = pasture user group; RUA = rangeland use agreement; SMEs = small and medium-sized enterprises; STI = sexually transmitted infection; TOSK = State Housing Corporation; WASH = water, sanitation, and hygiene.

^a ADB, 2018. *Measuring Asset Ownership and Entrepreneurship from a Gender Perspective: Methodology and Results of Pilot Surveys in Georgia, Mongolia, and the Philippines*. Manila.

^b Survey conducted under the Millennium Challenge Account Property Rights Project in 2018.

^c Project consultants will support the MCUD, implementing agencies, and PIU to conduct the proposed actions and monitor the indicator. An allocation of \$341,700 will be included in the consulting contract to fund the social and gender action plan activities.

^d According to a socioeconomic survey conducted in September 2019—in *Ulgii bagh* (subdistrict) 13 targeted street, 40.7% of households do not reach the minimum standard of living; in *Khovd bagh* targeted street, 31.4%; and in *Uvs bagh* 4 targeted street, 37.7%. Per Decree No. A/12 of 22 January 2019, the minimum standard of living in 2019 is MNT190,700 for the western region, including *Bayan-Ulgii*, *Khovd*, *Uvs aimags*.

^e Gender-sensitive public space refers to urban designs where women feel comfortable to use the public space and is adapted to both genders' needs and demands, in a specific societal context. Given the cultural aspects (women of a certain country may be comfortable in a type of urban design, while the same design may be

excluding women in another society); women are to be consulted at design stage. For instance, in France, a gender-sensitive urban design guidebook published by Paris Municipality identifies specific features related to topics such as mobility, appropriation of public space, or sense of security to promote designs adapted to women's needs. Examples of gender-sensitive urban designs in the French context include larger sidewalks (for people walking with strollers or with dependent elderly people, who are more often women), quality public lighting and signage, and well-thought design of bus stops for women to feel comfortable waiting, benches in squares, etc. Consultation is key to identify design priorities for women in the targeted *airmags* and *sourms*.

^f According to the National Federation of Pasture User Groups statistics, 100% of herder households are included in the PUGs of the targeted *sourms* of Tranche Groups at the beginning of the project.

^g Swiss Agency for Development and Cooperation. 2021. *Sustainably Managed Pastures and Healthy Animals: Mongolia's 'Green Gold'*.

^h Based on what is indicated in the CPP project sheets (requests for financing) and validated by the project consultants.

ⁱ Complying PUGs have met all criteria for CPP financing (RUA signed and PIHMP and stocking adjustment plan elaborated).

^j Target reached in similar projects, such as the Agronomes et Vétérinaires Sans Frontières (AVSF) project in Bayankhongor *airmag*.
Source: ADB.

SCHEDULE 6

UNDERTAKINGS

In addition to the legal agreements for individual tranches under the Facility, Mongolia shall ensure and shall cause the Development Bank of Mongolia, Ministry of Construction and Urban Development, and Ministry of Food, Agriculture and Light Industry to carry out the following:

Implementation Arrangements

- (i) Remain committed to the implementation of the *Aimags* and *Soums* Green Regional Development Investment Program and achieve its outputs and outcome in a timely manner, including executing the implementation arrangements set out in Schedule 3 to this framework financing agreement (FFA) and monitoring and evaluating implementation based on the design and monitoring framework attached to this FFA as Schedule 2.
- (ii) That all projects financed under this Facility are selected and approved in accordance with the criteria and procedures set out in Schedule 4 to this FFA, and all projects financed under this Facility are developed, implemented, and maintained in accordance with the safeguard and social requirements set out in Schedule 5 to this FFA.
- (iii) Implement the road map referred to in Schedule 1 to this FFA.
- (iv) Keep the Asian Development bank (ADB) informed of policies and programs related to the road map and economic development that will materially affect the economic viability of each project financed under the Facility. In the event of any change in the road map, policy framework, project or financing plan, Mongolia shall assess with ADB the potential impact on the Investment Program and evaluate any change in scope, amendment, or continuation, as appropriate, of the program.
- (v) Implement the program and the projects under the program in accordance with the detailed arrangements set forth in the facility administration manual (FAM). Any subsequent change to the FAM shall become effective only after approval of such change by the government and ADB.
- (vi) The implementation of each project under the program is in compliance with the undertakings and assurances concerning, environment, indigenous peoples, involuntary resettlement, gender policy, anticorruption policy, labor standards, and prohibited investments as set out in Schedule 5 of this FFA and the loan agreement for each tranche under the program.
- (vii) The establishment of the projects steering committee as further described in FAM.

Counterpart Support and Operation and Maintenance

- (i) That, throughout implementation of the program, adequate and timely counterpart support is provided for efficient implementation of the program, and additional financing is provided for any cost overruns in excess of the contingencies of the program and the projects.
- (ii) Take all actions, including provision of funds, facilities, services, and other resources necessary or appropriate to enable the executing and implementing agencies to perform its obligations under the legal agreements for each tranche, and for timely completion of the projects under the Facility.
- (iii) That executing and implementing agencies have sufficient funds to satisfy their respective liabilities from any works, goods, and services contract.

- (iv) Financial, technical, and human resources necessary for implementation of the program are provided on a timely basis throughout the implementation period.
- (v) Sufficient and appropriate staff for the duration of the program with adequate and relevant expertise, and that all staff provided for the program are equipped with adequate office space, facilities, equipment, support staff, and telecommunications and management information systems for the entire duration of the program.
- (vi) Sustainable operation of the project implementation unit, (as described in the implementation arrangements set out in Schedule 3) throughout the duration of the program.
- (vii) Adequate funds are allocated for the operation and maintenance of the infrastructure assets constructed and goods procured under the program.

SPECIFIC SELECTION CRITERIA FOR INVESTMENTS AND ACTIVITIES FINANCED BY THE GREEN CLIMATE FUND

Activities mentioned under outputs refer to the detailed description of outputs and activities in the periodic financing report and Section 1.D of the facility administration manual.

Box A1.1: Specific Selection Criteria for Output 2

All output 2 rangeland investment programs must meet the following criteria:

1. **Contribution to impact.** Investment should prove direct contribution to:
 - (i) reduced emissions from land use, low-carbon and climate-resilient rangeland management and conservation, and enhanced rangeland carbon stock;
 - (ii) increased resilience to climate change, including against natural disasters linked to climate change as well as contributing to improved livelihoods of the most vulnerable people, communities, and regions threatened by climate change; and
 - (iii) improved resilience of ecosystems and ecosystem services against natural disasters.
2. **Activities:**
 - (i) Green Climate Fund will be used for the following activities:
 - (a) support and capacity building for low-carbon pasture user groups and pasture management plans;
 - (b) support and capacity building for low-carbon herders' cooperatives that build on low-carbon pasture user groups;
 - (c) incentives to encourage the reduction of the herd size;
 - (d) small infrastructure and equipment to improve resilience against natural disasters, and increase productivity and herder's livelihoods;
 - (e) improve veterinary services,
 - (f) head structures and primary irrigation canals for fodder, animal feed, or vegetable production;
 - (g) ecosystem-based water conservation and water harvesting solutions;
 - (h) support animal tracking and traceability system; and
 - (i) support to certification system.
 - (ii) Additional activities not envisaged in Tranche 1 could be considered only if they can prove to support
 - (a) herders' resilience and livelihood,
 - (b) ecosystem resilience,
 - (c) direct herds reduction or indirect through economic diversification, and
 - (d) improved grazing system.
3. **Due diligence.** Comply with Asian Development Bank due diligence policy.
4. **Safeguard categorization.** None of the investment or activity should trigger safeguard category A.
5. **Gender.** The investments should support the overall tranche as *effective gender mainstreaming* and should prove meaningful consultation during the investment preparation.
6. **Environmental integrity.** Ensure that the funded activities will not lead to an increase in greenhouse gas emissions.

Source: Asian Development Bank.

Box A1.2: Conditions for Beneficiaries of Outputs 2 (Climate Resilient, High-Carbon Sequestration, and Sustainable Rangeland Management Implemented) and 4 (Institutional Capacity and Policies for Low-Carbon and Climate Resilient Agro-Territorial Development Strengthened)

1. **Conditions to pasture user groups' community investments through community participation in procurement (output 2, activity 1)** are below:
 - (i) benefit several households and is not be considered as private business investments;
 - (ii) part of the eligible projects;
 - (iii) included in the participatory and inclusive herd management plan (PIHMP) and implemented by pasture user groups (PUGs);
 - (iv) PUGs must have signed rangeland use agreements (RUAs) with *soum* governments following program requirements, including with a stocking adjustment plan;
 - (v) PUG must contribute 20% of the total investment (labor force, material, equipment, and investment capital); and
 - (vi) elaborate a community participation in procurement program sheet following the program requirements.
2. **Support to pasture user groups' organizations (output 2, activity 2.2).** In all targeted areas, financial support to cover seed fund for the first few years of *soum* PUG association and *aimag* PUG association.
3. **Technical and financial support to herders' cooperatives and their organizations (output 2, activity 2).** Eligible cooperatives are either cooperatives created under the programs from successful PUGs, or pre-existing cooperatives that meet the list of criteria or are willing to be supported to meet them. The exact list of criteria will be defined at the implementation stage, but following guidelines can be taken into account:
 - (i) *Soum* cooperative members are members of PUGs which have signed RUAs including stocking adjustment plan and are engaged in a PIHMP.
 - (ii) *Soum* cooperative embraces the principle of low-carbon and climate-resilient development, including the three pillars of sustainability, i.e., social, economic, and environmental sustainability. These objectives should be clearly indicated in the cooperative status.
 - (iii) All members have provided an initial financial contribution to be defined during the general assembly meeting to form an initial investment capital for the cooperative.
 - (iv) Democratic/bottom-up governance based on active participation of the members in the decision-making, implementation, and monitoring processes.
 - (v) Statutes are registered and updated.
 - (vi) Cooperative management bodies are functional and operating.
 - (vii) Profit-redistribution is based on the decisions of all members.
 - (viii) Availability of annual financial report.
 - (ix) Agreement to be controlled by an ethics committee that oversees if the cooperative is implementing its mission and objectives and gives advice to fulfil these objectives.
 - (x) Implementation or willingness to implement a livestock product low-carbon certification fitting with the definition of the sustainability concept, providing scientific guarantees that it came from herders who adopt low-carbon practices.
 - (xi) In the case of existing cooperatives, the program will assess their willingness to participate in capacity building programs on sustainability, governance, administration, and financial management; if it does not fully comply with the criteria.
4. **Rewards for reduction in animal numbers (output 2, activity 2.3).** Will benefit PUGs that have signed RUAs following program requirements that are yearly monitored and reach the objectives stated in the stocking adjustment plan.
5. **Laboratories, animal traceability, veterinary equipment, and disease-free establishments (output 2, activities 4 and 5)** are managed by the general authority of veterinary services which provides access to all herders. Eligible criteria: targeted *aimag* or inter-*soum* centers (for laboratory and disease-free establishment, and herds/PUG for affiliated *soum* for veterinary and breeding equipment, and traceability).

6. **Training and capacity building support (output 4, activity 2) for better rangeland management and for better veterinary practices.** All herders and PUGs are eligible in the targeted *soums* for activities related to development of PUGs and cooperatives, RUA, PIHMP, and veterinary and breeding practices.
7. **Training of one community-based animal health worker (para-vet) per pasture user group (output 4, activity 2) and provision of equipment (output 2, activity 5).** All PUGs in targeted *soums* will be eligible.
8. **Primary works for the irrigated perimeters (output 2, activity 3) will be implemented in the vicinities of the selected *aimag* and inter-*soum* centers.** Location, technical parameters, preliminary design, and costs will be done through feasibility study. In each location where it is implemented, the "primary" beneficiary is the local government, who will keep the ownership of the infrastructure, and the "secondary" beneficiaries are the farmers and water users. The selection of farmers and water users benefiting from the primary works for irrigated perimeters will be done through output 3 of the project, which will provide financing support to the private sector to develop irrigation perimeters to be connected to the primary works. Selection criteria are developed under output 3.
9. **Capacity building for herders' cooperatives and their organizations, and the water users of the irrigated perimeters (output 4, activity 2).** The selection criteria for the beneficiaries of output 4, activity 2 are the same as those used under output 2.
10. **Improvement of the capacity for low-carbon and climate-resilient agribusiness finance (output 4, activity 3).** Beneficiaries are (i) agribusinesses (small and medium-sized enterprises and cooperatives) working in the sectors identified by the low-carbon agribusiness development plan; and (ii) Development Bank of Mongolia and private banks to develop the financing mechanism to support agribusinesses (selection of the private banks is detailed under output 3).

Source: Asian Development Bank.

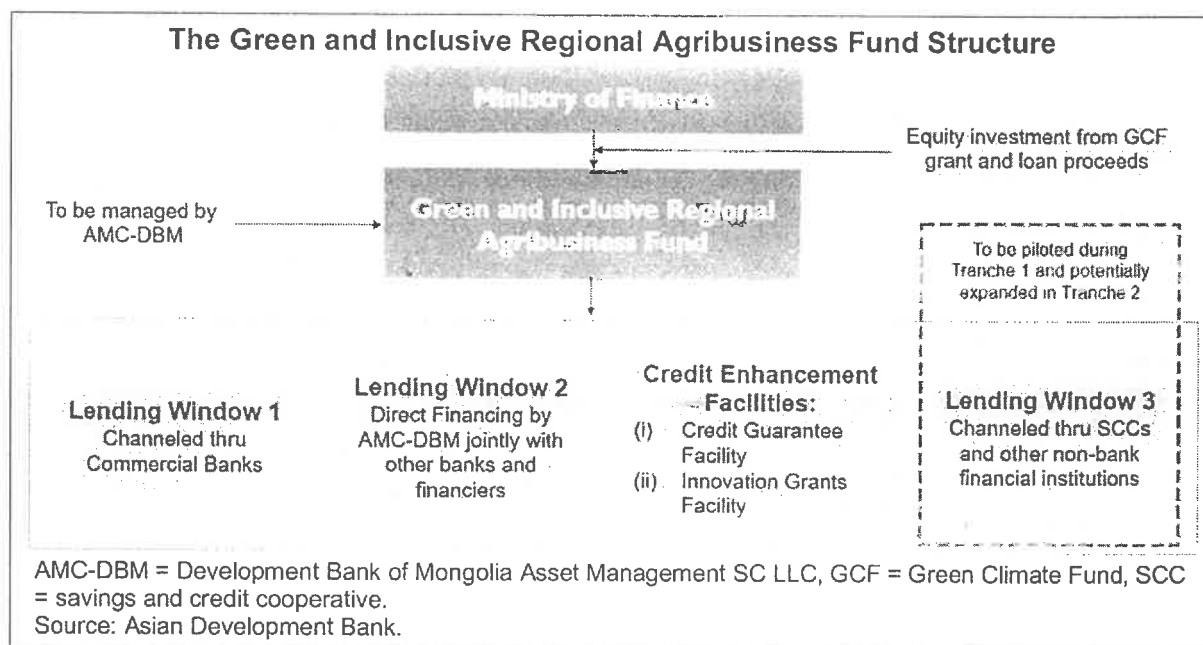
Box A1.3: Summary of the Green and Inclusive Regional Agribusiness Fund

Traditional barriers to access to agriculture finance. The World Bank in analyzing how climate finance can work in agriculture has noted that access to sufficient and adequate finance has been a challenge to the agriculture sector (including the livestock industry) in developing countries for decades due to perceptions of low profitability, low margins for financiers, and high actual and perceived risks (among other issues). Financiers in most countries, therefore, have reacted by limiting their exposure to the sector, raising interest rates, tightening the lending criteria, shortening terms, imposing onerous lending terms, and often shying away from lending to agriculture at all, seeking more stable returns from other sectors of the economy. The three major barriers that have traditionally limited the access of smallholder farmers/herders and small and medium-sized enterprises (SMEs) to sufficient and adequate finance—often referred to as the missing middle in agriculture literature—are (i) high transaction costs, (ii) inadequate enabling environments, and (iii) insufficient capacity of the finance sector to manage specific agriculture risks.^a These constraints to agriculture finance are evident in Mongolia as discussed in several Asian Development Bank (ADB) studies and based on consultations conducted in the program-targeted *aimags* and *soums*. Addressing these constraints will pave the way for climate change mitigation and adaptation finance to support the transition to sustainable rangeland and consequently, a more climate-smart livestock sector in Mongolia.

Fund structure and management of the Green and Inclusive Regional Agribusiness Fund. For the delivery of output 3, financing and implementation arrangements will facilitate the application of a blended climate change mitigation and adaptation finance strategy to support a climate-smart, low-carbon livestock sector in Mongolia using a financial intermediation loan (FIL) component.^b Under the proposed FIL component of the program, the Development Bank of Mongolia Asset Management SC LLC (AMC-DBM) will establish the Green and Inclusive Regional Agribusiness Fund (GIRAF) on behalf of the Ministry of Finance to support the climate change mitigation and adaptation investment requirements of

sustainable rangeland management. Simultaneously, it will address the financing constraints preventing the livestock herders, pasture user groups (PUGs), and agriculture cooperatives as well as their partner business enterprise from capturing the full benefits of a competitive and inclusive low-carbon and climate-resilient livestock value chain (LCLVC).^c Through the GIRAF, AMC-DBM will leverage GCF funding to attract additional investments from commercial banks and nonbank financial institutions; small, medium, and even large enterprises; agricultural cooperatives; and the government.

Under the program, the government will invest \$87.61 million from the GCF loan proceeds into the GIRAF which will be managed by AMC-DBM as the apex financial institution. It will also pass on the \$5 million reimbursable grant proceeds to the GIRAF to finance low-carbon, climate-resilient innovations. The GIRAF will be established as a private investment fund^d and structured as a revolving fund. Cognizant of the different climate-smart financing needs of a LCLVC's stakeholders, the fund will initially operate with (i) two low-carbon, climate-resilient lending windows to be channeled through participating commercial banks or directly through AMC-DBM jointly with other banks and financiers; (ii) a low-carbon and climate-resilient credit guarantees facility; and (iii) a low-carbon climate-resilient innovations grant facility for incentivizing investments to commercialize innovations leading to a greener, more inclusive, and competitive LCLVC (see the following Green Inclusive Regional Agribusiness Fund Structure). Another low-carbon and climate-resilient lending window to address the financing needs of microenterprises and which will channel loans through qualified savings and credit cooperatives and other nonbank financial institutions will be piloted during Tranche 1 to be potentially launched and expanded in Tranche 2. For the first two low-carbon and climate-resilient lending windows, business enterprises in partnership with herders or herders' cooperatives engaged in low-carbon and climate-resilient rangeland management and urban-rural linkages as well as diversification of the livestock agribusiness value chain will be eligible to borrow.



Onlending and relending mechanisms. Participating commercial banks will be selected using an eligibility and selection criteria that includes the following: (i) must be a duly registered bank in Mongolia under the applicable laws of Mongolia; (ii) must have a proven track record of at least 3 years in agriculture and agribusiness finance; (iii) must have adequate capacity to conduct retail banking for agriculture and agribusiness in the targeted *aimags* and *soums*; (iv) must be currently implementing or have plans to implement a financing program for green growth initiatives including carbon finance; (v) have corporate, financial, and governance practices that are acceptable to ADB; (vi) satisfy ADB's due diligence requirements for integrity, anti-money laundering, and counter financing of terrorism, and have put in place measures to implement such controls; (vii) have no past due obligations with the Bank of

Mongolia or adverse audit findings; (viii) have an adequately maintained financial management system including accounting records, procedures, and internal as well as risk management control systems that are satisfactory to ADB; (ix) have an established environmental and social management system or is willing to set up such in a manner acceptable to ADB, including appointing qualified staff to manage and implement the system; and (x) willing to designate experienced professional staff who will report progress to, and coordinate relevant activities with the Development Bank of Mongolia; GIRAF; AMC-DBM; Ministry of Construction and Urban Development; and Ministry of Food, Agriculture and Light Industry. Due diligence of the preselected commercial banks will be carried out and updated at least twice a year during the program implementation.

Green and Inclusive Regional Agribusiness Fund Lending Window 1. Three categories of subprojects are eligible for financing under this window. The details of each and their financing terms are discussed in the table below:^e

Category 1 Subprojects	
Eligible sub-borrowers and subprojects	Under this lending window, the GIRAF will provide low-carbon, climate-resilient agribusiness loans through qualified participating banks for the following essential LCLVC-related agribusiness subprojects involving (i) certified herders' cooperatives or (ii) SMEs in partnership agreements with certified herders' cooperatives where it is stipulated that the latter has contributed to the financing of the total subproject cost and will receive at least a 10% share of the subproject profits: <ul style="list-style-type: none"> (i) new meat processing to be located in the program-financed agro-industrial parks, or location providing similar level of infrastructure and urban services, in the targeted <i>aimags</i> and inter-<i>soum</i> centers; (ii) new irrigated perimeters (for fodder crops and seeds growing only, other uses are not eligible for financing under this window); (iii) relocate processing facilities to the point-of-need, limiting the requirements for transport, and reducing the transport emissions and emissions resulting in wastage during transport; (iv) subprojects that introduce low-carbon and climate-resilient technologies into the production process, such as renewable energy and use of waste materials; and (v) subprojects that provide herders on a commercial basis with inputs such as breeding techniques and breeding services improved access to water and feeds to help them adapt to climate change and lower their greenhouse gas (GHG) emissions and grazing pressure.
Eligible sub-loan expenditures	<ul style="list-style-type: none"> (i) Working capital requirements (ii) Equipment purchase (iii) Civil works (iv) Feasibility study/business plan preparation (v) Surveys integral to the feasibility study/business plan preparation (vi) Detailed engineering design
Indicative sub-loan size	Up to \$350,000 or MNT equivalent
Indicative lending terms	Interest rate: 7% per annum; Term: working capital loans (up to 2 years), others: (up to a maximum of 7 years); Grace period: up to 3 years
Category 2 Subprojects	
Eligible sub-borrowers and subprojects	Under this lending window, the GIRAF will provide low-carbon and climate-resilient agribusiness loans through qualified participating banks for the following livestock processing-related agribusiness subprojects in the value chain involving (i) SMEs in partnership agreements with certified herders' cooperatives (where the latter have a minimum share of 10%–15% of the subproject profits); (ii) SMEs signing sales and purchase agreement with its suppliers such as the certified herders, PUGs, and herders' cooperatives (schedule and quality) which indicate that suppliers are paid for the raw materials and annual (or seasonal) profit-sharing; or (iii) SMEs in partnership with certified herders provided there is a mutually agreed work and profit-sharing agreement among the two parties: ^f <ul style="list-style-type: none"> (i) meat (ii) skin (iii) wool

	<p>(iv) cashmere (v) dairy</p> <p>These agribusinesses, to be financed, must be included in the low-carbon and climate-resilient agribusiness development plan (LCADP) to be formulated with the support of the program for the targeted <i>aimags</i> and <i>soums</i> using a participatory, consensus building approach among the agribusiness value chain stakeholders. They should also be located in the program-financed agro-industrial park, or location providing similar level of infrastructure and urban services, in the targeted <i>aimag</i> or inter-<i>soum</i> center. For agribusinesses engaged in meat, skin, and hide, they must be located in a program-financed agro-industrial park where there is a meat processing facility that is operational or will soon be operational.</p>
Eligible sub-loan expenditures	<p>(i) Working capital requirements (ii) Equipment purchase (iii) Civil works (iv) Feasibility study and/or business plan preparation (v) Surveys integral to the feasibility study and/or business plan preparation (vi) Detailed engineering design</p>
Indicative sub-loan size	Up to \$500,000 or MNT equivalent
Indicative lending terms	Interest rate: 7.5% per annum; Term: working capital loans (up to 2 years), others: (up to a maximum of 7 years); Grace period: up to 3 years
Category 3 Subprojects	
Eligible sub-borrowers and subprojects	<p>Under this lending window, the GIRAF will provide low-carbon and climate-resilient agribusiness loans through qualified participating banks for subprojects involving certified herders' cooperatives and their business partner enterprises in off-pastureland, non-wood related, and less GHG-intensive economic diversification. Subprojects that are related to the vegetable agro-value chain or manufacturing by-products that are key to the herders' livelihood income, food security or support economic diversification will also be eligible for financing under this window, even if they are not mentioned in the LCADP. These may include but not limited to the following:</p> <p>(i) subprojects related to livestock marketing including the export market; (ii) subprojects that are related to service industries operating in the <i>aimag</i> and inter-<i>soum</i> centers and which can provide the certified herders household with alternative income sources; (iii) greenhouse farming (Note: There are no restrictions on the location of this type of subproject); and (iv) animal waste valorization businesses to be located in the program-financed agro-industrial parks in the targeted <i>aimags</i> and inter-<i>soum</i> centers.</p> <p>The above agribusinesses, to be financed, should be in the LCADP to be formulated with the support of the program for the targeted <i>aimags</i> and <i>soums</i> using a participatory, consensus building approach among the agribusiness value chain stakeholders</p>
Eligible sub-loan expenditures	<p>(i) Working capital requirements (ii) Equipment purchase (iii) Civil works (iv) Feasibility study/business plan preparation (v) Surveys integral to the feasibility study/business plan preparation (vi) Detailed engineering design</p>
Indicative sub-loan size	Up to \$1 million or MNT equivalent
Indicative lending terms	Interest rate: 8.5% per annum; Term: working capital loans (up to 2 years), others: (up to a maximum of 10 years); Grace period: up to 3 years
<p>Green and Inclusive Regional Agribusiness Fund Lending Window 2. Under this lending window, the GIRAF will directly provide low-carbon, climate-resilient agribusiness loans in parallel financing with other banks and/or financial institutions valued at \$500,000 up to \$5 million to qualified medium and large enterprises who are involved in low-carbon and climate-resilient livestock production, processing, distribution and marketing, and exports in the meat, skin, hide, dairy, wool, and cashmere value chains.</p>	

To receive financing under this window, the business plans of these medium and large enterprises must include a clearly articulated approach for

- (i) working and sharing their profits, with certified herders' cooperatives engaged in sustainable rangeland management;
- (ii) promoting low-carbon, climate-resilient rural–urban linkages and development; incorporating investments that reduce the GHG impacts of energy use such as solar panel, solar rooftops, or energy efficiency measures; investments that use waste products or reduce wastage (losses in the value chain); and investments that shorten the distance raw materials and products need to travel, thereby reducing the amount of GHG emissions related to transport;
- (iii) generating additional jobs and employment in the process reinvigorating the LCLVC; and
- (iv) diversifying as well as making more competitive the local economies of the program-targeted *aimags* and *soums*.

The proposed agribusinesses must also be able to demonstrate congruence and consistency with the low-carbon and climate-resilient agribusiness development plan to be formulated with the support of the program in the targeted *aimags* and *soums*. Eligible sub-loan expenditures will include civil works, equipment, feasibility studies and business plan preparation including all necessary surveys, and detailed engineering design. The interest rate to be charged by the GIRAF for this window, currently estimated at 10% to 12% per annum, will be a product of the blended finance to be provided, reflecting to the greatest extent possible, the concessionality provided by the GCF loan financing.

Green and Inclusive Regional Agribusiness Fund Low-Carbon and Climate-Resilient Credit Guarantee Facility. Based on a review of the lessons learned from similar types of agricultural credit guarantee facilities/funds in Asia, Europe, and Africa; the credit guarantee facility (CGF) of the GIRAF has been designed to (i) provide a third-party credit risk mitigation tool to lenders through the full or partial coverage of the lender's losses on the GIRAF subloans to agricultural cooperatives, microenterprises, SMEs, even large enterprises, in case of default; (ii) serve as a collateral substitute for the missing middle sub-borrowers of the GIRAF mostly comprising the agricultural cooperatives and SMEs, with no hard collaterals such as real estate properties; (iii) facilitate acceptability of collateral substitutes used in innovative agribusiness value chain financing schemes such as receivables discount financing, also known as factoring, and (iv) enable the adoption of lower lending rates since the guaranteed portion of the subloans which may be categorized as posing minimal or zero risk to the lending financial institutions.

The basic features of the CGF will include the following: (i) the guarantee/insurance premium structure and coverage will depend on the size, purpose, and sub-borrowers of the GIRAF subloans; (ii) the ceiling for sub-loan-to-collateral value will be structured depending on the capacity to repay of the sub-borrowers and the collateral(s) they are able to provide; (iii) the extent of the guarantee coverage to be adopted will range from 70% to 90% of the sub-loan value, depending on the purpose, size, and tenor of the sub-loan and the type of sub-borrower; (iv) occurrence of default or failure of the sub-borrower to pay applicable amortization will be defined based on the nature and amortization scheme of the sub-loan; (v) enrolment of accounts may be undertaken with a system of representations and warranties to be provided by the participating lending financial institution; and (vi) AMC-DBM as facility manager will have the right to conduct random audits to assess the documentary status and financial viability of enrolled subloans under the credit guarantee line of a participating lending financial institution.

Credit guarantee enrollment. Participating financial institutions providing GIRAF low-carbon and climate-resilient subloans are all eligible to avail of the fund's credit guarantee coverage. The process for enrolling and making a call on the CGF of GIRAF will be as follows: (i) financial institutions (banks, savings and credit cooperatives, and nonbank financial institutions) apply for a credit guarantee line with the GIRAF; (ii) AMC-DBM evaluates the applications against the approved CGF eligibility criteria for participating financial institutions under the GIRAF Lending Windows 1 and 2; (iii) for applications approved, a contract of guarantee will be executed between AMC-DBM and the applicant financial institution. The contract will cover provisions on the structure of the guarantee premium, extent of

coverage and sub-loan ceilings, sub-loan to collateral value, borrowers' equity, acceptable collateral and valuation, eligible sub-loan purposes, and definition of default based on applicable payment schedule of guaranteed subloans; and (iv) the financial institutions with approved credit guarantee line and contract of guarantee with AMC-DBM will enroll eligible subloans from the GIRAF Lending Windows 1 and 2 under their respective guarantee line with a letter of enrolment stating the required warranties and representations which will include: (a) the completeness of documents evidencing the sub-loan and the collateral/s securing the repayment thereof are valid, binding and enforceable against the sub-borrower; and (b) the reasonable examination of the loan accounts to ensure credit worthiness of the borrower under credit policies and guidelines on underwriting the loans extended by the financial intermediary are compliant to provisions of the contract of guarantee.

Call procedure on the guarantee. In the event of a default, as defined in the contract of guarantee, the financial institution will file a claim against the guarantee cover for the defaulting account and forward all documents and other requirements for evaluation of the call by AMC-DBM. A valid claim on the guarantee coverage of an account will trigger the processing of a call payment on the outstanding principal of the insured loan. However, the financial intermediary will warrant the continuing management of the defaulting account to enable, if possible, the recovery of the sub-loan call payments by the CGF.

The GIRAF Low-Carbon and Climate-Resilient Innovation Grants Facility. Mongolia's agriculture sector is the second largest contributor to the country's gross domestic product with a share of 11% and the biggest source of employment, providing jobs to nearly 35% of the country's economically active population. Within agriculture, the livestock industry is the largest gross domestic product contributor with a share of almost 85%. However, despite the comparative advantages of the Mongolian livestock industry and the tremendous market opportunities available, both domestically and internationally, there are still too few successful livestock agribusinesses that operate successfully in the market. What exists in the *aimags* and *soums* of Mongolia is a plethora of micro- and small business enterprises which are unable to transform into middle and large enterprises comprising an economically competitive, climate change resilient, and socially inclusive industry. There are many impediments to the transformation: a lack of marketing and marketing knowledge, inappropriate technology, a weak value chain integration, inaccessible financing, and insufficient innovations. The result is a perverse cycle of low value added to the livestock sector, inadequate income, and poor livability; exacerbating the need to increase the number of animals leading to further rangeland degradation. The primary objective of the GIRAF Low-Carbon and Climate-resilient Innovation Grants Facility (GIGF) is to increase the competitiveness and growth of pioneering agribusiness livestock enterprises in Mongolia's *aimags* and *soums* by advancing low-carbon, climate-resilient agribusiness products, processes, and business model innovations. It will seek to catalyze low-carbon green and inclusive regional agribusiness growth by accelerating the transformation of micro-and small agribusiness enterprises into competitive medium- and large-scale enterprises with the capacity to invigorate and diversify Mongolia's livestock value chain, in the process alleviating rangeland degradation, increasing the animal feed production, and promoting more efficient markets and integrated rural-urban development.

Eligible financing, structure, and management of the facility. The total requested GCF grant for the program is \$45 million, \$5 million of which has been earmarked for the GIGF of the GIRAF. From the total GCF grant, \$25 million has been allocated to Tranche 1. Of this Tranche 1 GCF grant allocation, \$3 million will be passed on as a grant by the Government of Mongolia to the GIRAF for the GIGF innovation grants.

AMC-DBM which is tasked to establish and manage the GIRAF in accordance with the Mongolian Investment Law will set up the GIGF as a revolving fund under the GIRAF. As such, the facility will also be managed by AMC-DBM in accordance with the grant policies and mechanics approved by the projects steering committee and the Financial Regulatory Commission (FRC).⁹ The financial management system of the GIGF will adhere to the relevant standards and procedures to meet ADB requirements, including separate accounting, reporting, auditing, and monitoring systems appropriate for grants. AMC-DBM will appoint a grant administrator to ensure the smooth functioning and operations of the GIGF. He or she will report directly to the GIRAF fund manager and will have primary responsibility for the following: (i)

evaluation of the grant applications in accordance with the GIGF criteria, (ii) recommendations on GIGF grant awards, and (iii) grant administration including disbursements and monitoring evaluation. In these tasks, he or she is expected to ensure that the GIGF strictly adheres to the grant policies and mechanics approved by the FRC and the projects steering committee.

Grant mechanics, operations, and eligible grant recipients. Eligible grant recipients are the innovative and SMEs whose written policies and ongoing and proposed programs demonstrate a firm commitment to agribusiness innovations and competitive growth. They must also be working in partnership or in association with herders engaged in sustainable low-carbon and climate-resilient rangeland management and which has the potential to become leaders in the low-carbon and climate-resilient livestock agribusiness value chain, as evidenced by their corporate values, strategies, and priorities as well as network. They must be registered SMEs in Mongolia, established in accordance with all relevant Mongolian laws and must be operating profitably for at least 2 years, with no adverse audit findings, at the time of grant application. SMEs deemed eligible to borrow from any of the GIRAF Lending Windows are also eligible to apply for grants from the GIGF. If they are already a GIRAF sub-borrower, their account must be in financial good standing, with no defaults and no adverse audit findings. In addition, they have to meet the subproject eligibility criteria specified by GIGF.

Eligible subprojects and subproject eligibility criteria. To be eligible a subproject proposal will have to demonstrate compliance with all the following six requirements below:

- (i) The proposed subproject should be a prototype.^h It should be the first-of-its kind or near the first-of-its kind in the targeted *aimag* (maximum of one project of the same nature during the last 5 years in the *aimag*).
- (ii) Should be sufficiently green. The proposed subproject should have adequate climate change mitigation and adaptation benefits with an assessed climate change benefitsⁱ to investment ratio of at least 10%.
- (iii) It should demonstrate additionality. It should show how the subproject can capture GHG emission reductions in the agriculture livestock value chain that would not occur without the GIGF support to the subproject, demonstrating a positive effect from a baseline scenario.^j
- (iv) It should be replicable. It should have an approach that clearly illustrates how its experience and lessons learned from the program can be replicated or scaled-up in the near future for other *aimags*.^k
- (v) It should demonstrate green social inclusivity. It should have institutional and design features that show how it will foster the linkage between growth and competitiveness and sustainable rangeland management, specifically with respect to herders' cooperatives and the vulnerable segments of society.^l
- (vi) It should have the potential to transform the SME into a larger, more competitive entity. It should show how the proposed low-carbon and climate-resilient agribusiness innovation can evolve into a larger enterprise capable of generating additional annual revenues of at least 10% and additional green jobs and employment of at least 30% for the economy.

Examples of eligible subprojects. Subprojects should employ innovative knowledge products and technologies in agricultural production and productivity, agro-processing, and agricultural marketing toward a low-carbon, climate-resilient and inclusive livestock agribusiness value chain at the *aimags* and *soums*. These may include but are not limited to the following: (i) gel applications to the ground to retain water, (ii) improved breeds and livestock breeding services, (iii) artificial insemination, (iv) feed additives to reduce methane emissions, (v) digital systems in livestock marketing and distribution (related to product certification), and (vi) renewable energy or energy efficiency solutions for production and processing.

Ineligible subprojects and activities. Some subprojects and/or activities will not be funded by the GIGF. The following list is a guide to the types of subproject-related activities or costs which the GIGF will not cover. The GIGF will not cover costs relating to

- (i) "business as usual" expenses, including
 - (a) overheads incurred during normal business and/or industry;
 - (b) activities that are already happening in business and/or industry; and
 - (c) capital expenditures planned in the normal course of business, such as spending on machinery, equipment, stock, software, and other similar expenditures.
- (ii) expenses the business/industry would incur anyway if it did not get funding under the GIGF;
- (iii) costs that are not in cash;
- (iv) activities that contribute to increases in GHG emissions or increases in climate change vulnerability;
- (v) activities that fail to meet the program environmental and social safeguards; and
- (vi) activities that do not contribute to the achievement of the program objectives.

Grant applications, awards, disbursements, and monitoring. The approval of GIRAF grants will be based on an application using a template provided by AMC-DBM. The template will require all applicants to provide the rationale for their grant request, details of their proposed innovation(s), the impact on climate change mitigation and adaptation and the agribusiness livestock value chain, anticipated results (outcome and outputs), and details of their budget and implementation plan with progress milestones. The grant applications will be evaluated using selection criteria that will include the following: (i) must be a prototype, the first or near the first-of-its kind in the targeted *aimag*; (ii) climate change benefit to investment indicator of at least 10%, (iii) ability to capture cost-efficient GHG emission reductions in the agriculture livestock value chain; (iv) replicability in other *aimags*; (v) green social inclusivity fostering partnership agreements that ensure a more equitably distribution of benefits; and (vi) potential to transform into a larger, more competitive entity capable of generating additional revenues and green jobs. Upon approval, AMC-DBM will monitor and disburse grants proportionately based on their implementation schedule and progress milestones achieved. This will mitigate the risk of grants being used to repay the loans.

A more detailed discussion of Output 3 and the GIRAF is attached as Appendix 3 of the facility administration manual.^m

^a Marc Peter Sadler. 2016. *Making Climate Finance Work in Agriculture*. World Bank: Washington, D.C.

^b ADB provides a FIL on a stand-alone basis, or as components of sector development programs or sector or project loans, to finance specific development projects whose individual financing requirements are not large enough to warrant its direct supervision. ADB funds can be directly provided to one or several financial intermediaries depending on their management and administrative capabilities or channeled to financial intermediaries through the government and/or apex wholesale financial mechanisms, where conditions necessary for their sustainable operation exist. Apex institutions are usually financial institutions through which donor-funded FILs are channeled to a second layer of financial intermediaries, who will in turn onlend such loan proceeds to the sub-borrowers. Apex institutions take the credit risk on the second-tier intermediaries.

^c Based on Government Resolution 135 and DBM Board of Directors Resolution 66 dated 23 August 2017, DBM established AMC-DBM and acquired special license for investment management services. In accordance with Financial Regulatory Commission Resolution 241 dated 15 December 2017, AMC-DBM received the right to establish and manage investment funds.

^d Private investment fund is one of the two types of funds available under the Mongolian law. The other is public investment fund, which is a mutual fund.

^e The low-carbon and climate-resilient loan financing terms indicated for each window are based on a survey of prevailing agricultural finance programs in Mongolia which are funded by the government and/or international donor agencies. Analysis conducted under the transaction technical assistance based on consultative meetings with banks and the private sector in June to September 2018 at the targeted *aimags* and *soums* revealed that access to finance by the herders, herders' cooperatives, and agriculture and/or agribusiness SMEs has been severely limited, lending credence to the missing middle financing gap in Mongolia's *aimags* and *soums*, particularly for the livestock agribusiness sector.

^f Tannery businesses are not eligible due to their high environmental impacts.

^g A draft manual containing the detailed grant policies and mechanics will be prepared by AMC-DBM with the support of program consultants under O4A3 to be financed by the ADB concessional loan. This manual will be

submitted to the projects steering committee for approval. The FRC will review and approve the manual prior to the approval of the projects steering committee.

^h The proposed intervention and/or subproject should be a prototype, a model that can serve as a basis for future innovative knowledge and technology applications in activities critical to the strengthening the agribusiness livestock value chain in the targeted *aimags* and *soums*. These activities include (i) agricultural production, (ii) agricultural processing, (iii) packaging, (iv) distribution, (v) branding, and (vi) other aspects of marketing including those relevant to the export markets.

ⁱ The climate change benefit indicator is a measure of climate change value for money. It is a monetized estimate of the main annual climate change benefits resulting from the program or intervention, linking the annual climate change benefits to the investment amount (Appendix 5 of the Facility Administration Manual [accessible from the list of linked documents in Appendix 2 of the report and recommendation of the President]).

^j Additionality is the determination whether a proposed activity will produce some "extra good" in the future relative to a reference scenario, which is referred to as a baseline. The proposed subproject must be able to demonstrate how it will produce incremental GHG emissions in the agribusiness livestock value chain, given the with- and without-the-subproject scenarios, in which the without-the-subproject-scenario is the baseline.

^k Consistent with the terms used in the relevant climate change literature, replicability is defined in this case as refers to activities that explicitly attempt to reproduce a specific intervention in a different location(s). This means that the subproject proposal should convincingly argue that with the GIGF support, it will be possible to overcome barriers toward the future implementation of similar projects in other *aimags*.

^l The subproject must have an approach that explains how the subproject can achieve growth and competitiveness and reduce GHG emissions while producing benefits that are more equitably distributed. This can take the form of legally viable partnership arrangements between the SMEs and herders' cooperatives as well as the vulnerable households in the targeted *aimags* and *soums* which enable the latter to share in the benefits to be generated by the subproject.

^m Facility Administration Manual (accessible from the list of linked documents in Appendix 2 of the report and recommendation of the President).

Source: ADB.