

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 8 March 2023¹

MONGOLIA

**GRCF2 W1 - ULAANBAATAR GREEN
AFFORDABLE HOUSING**

FRAMEWORK - GREEN CITIES 2 – WINDOW I

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

TABLE OF CONTENTS

	Page
TABLE OF CONTENTS	2
ABBREVIATIONS / CURRENCY CONVERSIONS	3
PRESIDENT’S RECOMMENDATION	4
BOARD DECISION SHEET	5
ADDITIONAL SUMMARY TERMS FACTSHEET	6
INVESTMENT PROPOSAL SUMMARY	8
1. STRATEGIC FIT AND KEY ISSUES	8
1.1 STRATEGIC CONTEXT	8
1.2 TRANSITION IMPACT.....	10
1.3 ADDITIONALITY	11
1.4 SOUND BANKING - KEY RISKS	12
2. MEASURING / MONITORING SUCCESS	13
3. KEY PARTIES.....	17
3.1 BORROWER.....	17
3.2 IMPLEMENTING AGENCY	17
4. MARKET CONTEXT.....	17
5. FINANCIAL / ECONOMIC ANALYSIS.....	18
5.1 FINANCIAL PROJECTIONS	18
5.2 SENSITIVITY ANALYSIS	18
5.3 PROJECTED PROFITABILITY FOR THE BANK.....	18
6. OTHER KEY CONSIDERATIONS	18
6.1 ENVIRONMENT.....	18
6.2 INTEGRITY	19
6.3 OTHER ISSUES	19
ANNEX 1. PROJECT IMPLEMENTATION AND PROCUREMENT PLAN..	21
ANNEX 2. IMPLEMENTATION PROGRESS OF GRCF / GRCF2.....	23
ANNEX 3. PROJECT EIRR	24
ANNEX 4. GREEN ASSESSMENTS	25
ANNEX 5. ULAANBAATAR’S ENVIRONMENTAL CHALLENGES	27

ABBREVIATIONS / CURRENCY CONVERSIONS

ADB	Asian Development Bank
DALY	Disability Adjusted Life Years
DEIA	Detailed Environmental Impact Assessment
EBITDA	Earnings Before Interests, Tax, Depreciation and Amortisation
EDGE	Excellence in Design for Greater Efficiencies
EHS	Environment, Health and Safety
EIRR	Economic Internal Rate of Return
E&S	Environmental and Social
ESP	Environmental and Social Policy
ESAP	Environmental and Social Action Plan
GCAP	Green City Action Plan
GCF	Green Climate Fund
GDP	Gross Domestic Product
GET	Green Economy Transition
GEIA	General Environmental Impact Assessment
GHG	Greenhouse Gas
GrCF	Green Cities Framework
HR	Human Resources
ICDP	Institutional Capacity Development Programme
IFI	International Financial Institution
IMF	International Monetary Fund
MNT	Mongolian Tugrik
MEI	Municipal and Environmental Infrastructure
NTS	Non-Technical Summary
O&M	Operation and Maintenance
PIU	Project Implementation Unit
PIP	Priority Investment Programme
PP&R	EBRD's Procurement Policies and Rules
QALY	Quality-adjusted Life Years
SEP	Stakeholder Engagement Plan
TI	Transition Impact
TC	Technical Cooperation
WTP	Willingness to Pay

CURRENCY CONVERSION

(as of 09.02.2023)

USD 1 = MNT 3,504

EUR 1 = USD 1.08

PRESIDENT’S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Mongolia (the “Borrower”) for the benefit of the Municipality of Ulaanbaatar (the “City”), are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan to Mongolia in the amount of up to USD 20 million (EUR 18.6 million equivalent) for the benefit of the City. The facility is proposed to be co-financed by a capital grant of Euro equivalent of USD 5 million (EUR 4.6 million) from the Green Climate Fund (the “GCF”) under EBRD Green Cities. This is a sub-project under the framework “Green Cities 2 - Window I”.

The operation will enable the City to build around 712 low-carbon and climate-resilient housing units in Ulaanbaatar for accommodating eligible households on rent and rent-to-own terms. The Project’s expected transition impact is aligned with the transition objectives of Green Cities. It does so by focusing on “Green” as the primary transition quality through improving air quality and reducing CO₂ emissions, as well as incorporating climate change adaption solutions. The Project also contributes to the “Well-Governed” quality by improving contractual arrangements and procedures for implementing affordable housing projects with higher energy standards in the City.

This Project is the City’s second follow-on investment under EBRD Green Cities, and is the country’s first to receive Green Cities GCF co-financing in the form of investment grants. The Project will address the City’s priority environmental challenges, poor air and water quality, as well as the climate change impacts identified by the Green City Action Plan that the City approved in December 2019. The Project qualifies for 100 per cent GET.

Pre-signing technical cooperation (“TC”) support for the Project’s preparation was financed by the EBRD Shareholder Special Fund (the “SSF”). Post-signing TC to support the Project’s implementation will be partially financed by the GCF under EBRD Green Cities and partially by an international donor and/or the SSF. TC support to improve the institutional capacity to implement affordable housing projects in the City will be financed by an international donor and/or the SSF.

I am satisfied that the operation is consistent with the Bank’s Strategy for Mongolia, the Green Economy Transition Approach 2021-2025, MEI Sector Strategy, the Strategy for the Promotion of Gender Equality and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

MONGOLIA – Ulaanbaatar Green Affordable Housing - DTM 50702 Framework: REGIONAL – Green Cities 2 – Window I (GCF) - DTM 50440	
Transaction / Board Decision	Board approval ² is sought for a sovereign loan of up to USD 20 million (EUR 18.6 million) in favour of Mongolia (the “Borrower”) for the benefit of the Municipality of Ulaanbaatar (the “City”) to finance design and construction of around 712 low-carbon and climate-resilient housing units and associated infrastructure in Ulaanbaatar to house eligible residents on rent and rent-to-own terms (the “Project”). The loan will be co-financed by a capital grant of up to Euro equivalent of USD 5 million (EUR 4.6 million) from the Green Climate Fund (the “GCF”).
Client	Mongolia is the borrower. The Project will be implemented by the City.
Main Elements of the Proposal	<p>The Project is a follow-on investment from Ulaanbaatar’s Green City Action Plan, addressing the City’s priorities of climate change, air and water quality.</p> <p><u>Transition impact:</u> The Project supports the EBRD Green Cities’ transition objectives by focusing on Green as primary transition quality through improving air quality and reducing CO₂ emissions, as well as by incorporating climate change adaptation solutions. The Project also contributes to the Well-governed quality by improving contractual arrangements and procedures for implementing affordable housing projects with higher energy standards in the City.</p> <p><u>Additionality:</u> <i>Financing Structure:</i> The Project will close the existing funding gap for affordable housing projects where alternative commercial financing is not available. <i>Risk mitigation:</i> It will mitigate carbon transition risk by reducing CO₂ emissions by 988 tonnes per year. <i>Standard-setting:</i> The Project will achieve compliance with an internationally recognised green building scheme; supporting higher inclusion and gender standards by developing a gender-inclusive affordable housing policy for the City. <i>Knowledge, innovation, and capacity building:</i> The Project will provide technical assistance to the City to improve contractual arrangements and procedures for implementing affordable housing projects with higher energy standards.</p> <p><u>Sound banking:</u> Mongolia is the Borrower.</p>
Key Risks	<p><u>Borrower's creditworthiness:</u> Mongolia is a creditworthy borrower, rated B/stable by S&P, B/stable by Fitch and B3/stable by Moody’s. Mongolia's economy remains sensitive to commodity prices and demand shocks, however, abundant mineral resources ensure its high medium-term growth potential.</p> <p><u>Construction risk:</u> The Bank’s PP&R and a “design and build” by the contractor model will be used to mitigate risks of overruns and ensure the expected completion timing is met.</p> <p><u>Project implementation risk:</u> [REDACTED] will be mitigated by the involvement of a Project Implementation Support consultants.</p>
Strategic Fit Summary	The Project promotes high resource efficiency and climate resilience in buildings. It is aligned with (i) the Green Economy Transition Approach 2.1, (ii) the MEI Sector Strategy, (iii) the Strategy for the Promotion of Gender Equality and (iv) the Country Strategy for Mongolia.

² Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	A sovereign loan of up to USD 20 million (EUR 18.6 million) to Mongolia (the “Borrower”) for the benefit of the Municipality of Ulaanbaatar (the “City”). The loan will be co-financed by a capital grant from the Green Climate Fund (the “GCF”) in the amount of up to Euro equivalent of up to USD 5 million (EUR 4.6 million). The Project will be implemented by the City through a Project Implementation Unit created to manage the Project.
Existing Exposure	To Mongolia: EUR 206 million of sovereign portfolio (five projects). [REDACTED].
Maturity / Exit / Repayment	The loan tenor is 15 years [REDACTED].
Potential AMI eligible financing	None.
Use of Proceeds	The loan and capital grant proceeds will be used to (i) design and build around 712 housing units and associated infrastructure on a vacant land plot in Ulaanbaatar and (ii) finance operating and administrative costs of the Project Implementation Unit (PIU). [REDACTED]. The Project implementation arrangements and procurement plan are presented in Annex 1.
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • Mongolia as the Borrower; • Municipality of Ulaanbaatar as the Implementing Agency.
Conditions to subscription / disbursement	[REDACTED]

Key Covenants	<i>For the City:</i> <ul style="list-style-type: none"> Implement the Project in line with the Project Agreement; Implement the ESAP; [REDACTED].
Security / Guarantees	Sovereign loan
Other material agreements	N/A
Associated Donor Funded TC and co-investment grants/concessional finance	<p>A. Technical Cooperation (TC)</p> <p><u>Pre-signing</u></p> <ul style="list-style-type: none"> TC 1: Feasibility Study to assess the commercial, technical, legal, institutional, climate resilience, environmental and social aspects of the Project, as well as procurement and implementation arrangements [REDACTED], financed by the SSF. TC 2: Individual Consultant from the pre-approved Quality Assurance and Capacity Building Programme for Company-led Implementation Framework to assist the City with selecting the Project Implementation Support consultant, [REDACTED] to be financed by the SSF. <p><u>Post-signing:</u></p> <ul style="list-style-type: none"> TC 3: Project Implementation Support (PIS) to assist the City with tender preparation, design review, procurement and construction supervision, as well as reporting and compliance with the ESAP [REDACTED] to be financed by the GCF and the remaining amount is proposed to be financed by an international donor or the SSF. TC 4: Institutional Capacity Development Programme (ICDP) to improve the City's institutional capacity and develop/improve procedures, including for private sector participation in energy efficiency upgrades, and contracting arrangements for rent/rent-to-own schemes, [REDACTED] proposed to be financed by an international donor or the SSF. TC 5: Gender Advisory Services (GAS) from the pre-approved Gender and Economic Inclusion TC Framework to assist the City with developing a gender-inclusive affordable housing policy and promoting gender equality, [REDACTED] to be financed by the GCF. <p>Cost sharing: In line with the Bank's client contributions policy, dated 1 January 2021, cash contributions will not be provided taking the Client's public ownership into account [REDACTED].</p> <p>B. Co-investment grants / Concessional Finance (Non-TC) The Project will be co-financed by an investment grant of Euro equivalent of up to USD 5 million (EUR 4.6 million) from the GCF under EBRD Green Cities to support the adoption of higher energy and resource efficiency standards and climate resilient solutions.</p>

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Ulaanbaatar is home to 1.5 million people; about 50 per cent of the country's population. The City has gone through rapid urbanisation over the last 20 years. Many families have moved from rural areas and settled in “ger districts” seeking jobs to escape the devastating consequences of *dzuds* (harsh winter storms), which have been exacerbated by climate change. About 850,000 people live in sub-standard housing, with very low energy efficiency, mostly without running water, sanitation, adequate heating or paved roads.

Ulaanbaatar is located in a water scarce environment, yet regularly faces severe flooding. Future climate projections indicate that this situation is going to intensify, with fewer but more extreme rain and storm events. Ger residents are most vulnerable to these climate extremes, as they live in ground-level houses/gers with limited water supply and sewerage. Due to climate change, and the expected increased frequency and severity of *dzuds*, migration to Ulaanbaatar is likely to experience surges, increasing air pollution issues and stress on urban infrastructure and housing. Please refer to Annex 5 for a snapshot of air pollution in Ulaanbaatar in winter.

Ger residents have to rely on inefficient coal stoves for heating and cooking. This heating source alone accounts for 80 per cent of Ulaanbaatar's air pollution during the winter months, impacting public health. The lack of centralised water supply and sanitation, combined with local flooding events, further aggravates the poor environmental situation, causing high levels of soil and ground water contamination. As a result, poor air and water quality, as well as climate change impacts were identified as priority environmental challenges in the City's Green City Action Plan (“GCAP”), while developing affordable green housing in ger areas was included as the number one action to fight air pollution and improve water and soil quality.

Considering the challenges of living in ger districts, a vast majority of ger residents are willing to move to an apartment. To assist the City in providing affordable housing to eligible residents, the Bank will finance the construction of around 712 low-carbon and climate-resilient housing units and associated infrastructure (the “Project”). The Project will be located in Ulaanbaatar on a vacant four-hectare plot of land that is connected to all the necessary central utilities networks (water, sewage and district heating). [REDACTED]. Allocation of housing units will be decided by the City based on eligibility criteria (e.g. young family, single parent, disabled person, large family, civil servants, etc.) approved by the City Council in 2019. [REDACTED]. Selection will be performed by a committee formed by the City's Governor.

The Project will be designed and built to achieve compliance with an internationally recognised green building scheme (EDGE). It has become an international best practice to define the energy performance of the building rather than specify requirements for individual building elements. This is especially true for new buildings. By establishing energy and resource performance indicators on a building level, EDGE encourages

contractors to optimise design for the whole building and leverage passive design³ principles before selecting individual energy efficiency solutions. This approach ensures high energy performance targets are achieved in the most cost optimal way, as contractors are stimulated to consider the interdependency of different measures and materials and improve installation quality. This is a common issue in the absence of performance metrics at a building level. The EDGE certification also provides a proven method to verify expected savings.

With a carefully optimised design, choices of low-carbon material and structures⁴ the Project will achieve at least 20 per cent higher performance in energy, water and material efficiency when compared with national standards. Expected annual energy savings [REDACTED] will enable other private sector customers access low-cost district heating energy in the City, avoiding investment in the generation. For example, the amount of energy saved by the Project is equivalent to the heating needs of [REDACTED] additional housing units.

The Project will continue the Bank's engagement in green investment in buildings, such as improving energy efficiency of public buildings in Ukraine, Poland and Romania, as well as energy efficiency upgrade of residential buildings in Sabac, Serbia. The Project can be the first EDGE certified building in Mongolia, showcasing a cost-efficient approach to delivering green buildings. Private sector companies engaged in the realisation of the Project will familiarise themselves with new technologies and materials, improve their construction standards and apply them in similar construction projects in the future. [REDACTED].

As a GCAP follow-on investment, the Project is well placed to support the City's efforts in combatting air pollution and transforming Ulaanbaatar into a low-carbon and liveable urban environment. It is aligned with the Action Plan of the Government of Mongolia for 2020-2025 that aims to "develop the Ulaanbaatar city ... into a green city with rational spatial planning, smart solutions and favourable living environment", and in particular to "reorganize ger areas and accelerate construction of green civil buildings and construction in new residential areas".

The Project will help the City accelerate the redevelopment of ger areas and complement ongoing initiatives of other international financiers and donors. One of these projects is Ulaanbaatar Green Affordable Housing and Resilient Urban Renewal Project (AHURP). This will construct 10,000 housing units until 2027 with a total budget of USD 570 million. The ADB is providing a USD 80 million sovereign loan. The GCF will extend another USD 95 million as a loan and USD 50 million as a grant. Another two projects include Bayangoliin Am and Solongo 1 and 2 affordable housing projects for construction of 2,000 (started) and 5,000 housing units (planned) financed by a sovereign loan of USD 381.5 million from the Republic of Korea. However, even these combined efforts do not satisfy the demand in affordable housing for those 130,000 families living in ger areas who are interested to improve their living conditions.

³ Passive design standards include harnessing the power of the sun and internal energy sources as well as conserving heat with airtight building methods that drastically reduce the energy a building must consume to keep it warm.

⁴ The Project will incorporate advanced energy efficiency and climate adaptation design elements, such as improved insulation, windows with higher thermal performance and air tightness, LED lighting, room heating controls, low flow taps and showers, etc.

The Project is aligned with the Green Economy Transition Approach 2021-2025 of the Bank. This calls for a “focus on investments in low-carbon buildings” to address high emissions in the buildings sector (accounts for 43 per cent of GHG emissions in the EBRD region). The green classification system developed by the European Union (the EU Taxonomy) also recognises that construction of new buildings designed to minimise energy use and carbon emissions can make a substantial contribution to the climate change mitigation and adaptation goals.

The Project is consistent with the MEI Sector Strategy specific objectives, including to “increase access to essential municipal infrastructure focused on quality, resource efficiency, reduced environmental impact” and the Strategy for the Promotion of Gender Equality. The Project will promote gender equality by supporting the City in developing a gender-inclusive affordable housing policy to guide the City’s future affordable housing projects, and management of community-led initiatives, such as setting up a children and women community centre.

The Project aligns with the Country Strategy for Mongolia as it focuses on “improving quality, efficiency, and environmental sustainability of municipal infrastructure”. This Project also contributes to many UN Sustainable Development Goals (SDGs), namely: *SDG 3: Good Health and Well-being, SDG 5: Gender Equality, SDG 6: Clean Water and Sanitation, SDG 7: Affordable and Clean Energy, SDG 9: Industry, Innovation and Infrastructure, SDG 11: Sustainable Cities and Communities, SDG 12: Responsible Consumption and Production, SDG 13: Climate Action, and SDG 17: Partnerships for the SDGs.*

1.2 TRANSITION IMPACT

This operation is proposed under the Green Cities Framework 2 (“GrCF2”) as a follow-on project to the GrCF Ulaanbaatar Solid Waste Modernisation Project signed in May 2018 (trigger project), and the GrCF2 W2 Ulaanbaatar District Heating Project signed in January 2020. The Project addresses three priority environmental challenges that the City identified in the GCAP: poor air quality, water quality and climate change impact. It is eligible for GrCF2 and GCF co-financing grant due to its energy savings and significant climate resilience benefits.

The GrCF2 represents a strategic, multi-project approach seeking to help identify and address environmental challenges in selected large cities in our countries of operation. The primary goal is to achieve significant environmental improvements and to promote the **Green** transition quality within the relevant cities. In addition to the environmental objective, the GrCF2 also promotes sustainable cities through inclusive, resilient, well-governed and smart urban development. Depending on which area can generate the strongest and most relevant transition impact, either **Well-governed, Inclusive, Resilient or Competitive** will be pursued and presented as the secondary transition quality for each sub-Project under the framework. These transition objectives are supported by the development and implementation of a city-specific GCAP aiming to identify environmental challenges, facilitate better coordination and buy-in among stakeholders as well as to help prioritise and develop the best ways of addressing environmental challenges through targeted investments, services and policy instruments.

- The Project will primarily help to promote **Green** transition quality by improving air quality and delivering CO₂ savings of 988 tonne per year, driven by the high energy performance of new buildings. In addition, buildings will achieve water savings of [REDACTED] and reduce the embodied energy of their materials [REDACTED]. The Project will also support climate change adaptation by increasing water availability, improving human health through better sanitation, and reducing weather related damages (with Valorised Climate Resilience Benefit [REDACTED]). Furthermore, this follow-on investment Project will promote the implementation of a priority action from the Ulaanbaatar GCAP, namely, Action 1. Develop green affordable housing in ger areas.
- The Project will also support the **Well-governed** objective through the implementation of ICDP to improve the City's institutional capacity and contractual arrangements and procedures for implementing affordable housing projects with higher energy standards that are replicable by the private sector going forward.

Delivery risks to the transition impact relate to: (i) corporate/municipal capacity/willingness to implement the GCAP recommendations; (ii) follow-on investments failing to materialise; (iii) willingness and ability to implement ICDP and associated performance improvement measures; and (iv) willingness to adopt higher energy efficiency standards for affordable housing projects. These risks are mitigated by the following factors: (a) the GCAP was approved by the City and is currently under implementation (b) the City remains committed to supporting green development (combating air pollution in the City remains high on the political agenda), and (c) loan covenants and TC support for the Project.

1.3 ADDITIONALITY

Identified triggers	Description
A subsequent/consecutive transaction (issuance) with the same client/group either with the same use of proceeds or in the same destination country (repeat transaction)	The Project is a repeat sovereign transaction with Mongolia and the City of Ulaanbaatar. This is a follow-on investment under the GCAP and forms part of a broader programme aiming to assist the City in implementing the GCAP. This will be the first Project with the City financing green affordable housing.
Additionality sources	Evidence of additionality sources
Financing Structure - EBRD investment is needed to close the funding gap . At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.	To complete Action 1 of the GCAP "Develop green affordable housing in ger areas" and provide [REDACTED] ger residents with new affordable housing [REDACTED]. The Bank will provide a total financing of USD 25 million (including grants). This will only partially help close the existing financing gap as there is no alternative commercial financing for this type of projects.
Risk mitigation - EBRD helps the client to mitigate carbon transition risks and take climate action, such as to move along a low carbon transition pathway.	The Project will achieve CO ₂ savings of about 988 tonnes per year, driven by the high energy performance of new buildings. In addition, buildings will achieve water savings [REDACTED] and reduce embodied energy of used material [REDACTED]. Without the Bank's participation, higher environmental standards might not have been pursued.

<p>Standard-setting: helping projects and clients achieve higher standards – Client seeks/makes use of EBRD expertise over energy and resource efficiency and climate resilience financing via provision of energy and climate audits, minimum performance standards of technologies, climate-related strategies and policies, monitoring, reporting and verification (MRV) systems etc.</p>	<p>The Project is targeting EDGE certification, which will constitute an outstanding achievement given that this could be the first project in Mongolia to obtain such a certification. EDGE certification ensures that the project performs 20 per cent better than the national standards in the area of energy, water and material.</p>
<p>Standard-setting: helping projects and clients achieve higher standards - Client seeks/makes use of EBRD expertise on higher inclusion and gender standards</p>	<p>The Project will assist the City in developing gender-inclusive affordable housing policy to guide the operation of future affordable housing projects and to help it manage community-led initiatives, such as setting up a children and women community centre.</p>
<p>Knowledge, innovation and capacity building – EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the Project's objectives, including support to strengthen the capacity of the client.</p>	<p>The EBRD has extensive experience in energy efficiency and climate financing and will strengthen the City's capacity to implement energy efficiency projects up to international standards. The Bank will also help the City improve contractual arrangements and procedures for implementing affordable housing projects with higher energy standards. This will be supported through provision of PIS and ICDP consultancy services, as well as through influencing the Project design by developing energy efficiency and climate resilience investment requirements [REDACTED].</p>

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Borrower's creditworthiness	Medium/ High	Mongolia is rated B/stable by S&P, B/stable by Fitch and B3/stable by Moody's (last evaluated in 2022). Mongolia's external debt is high (at 80 per cent of GDP) and the economy remains sensitive to commodity price and demand shocks. However, abundant mineral resources ensure its high medium-term growth potential. Improved public debt governance and retained access to refinancing should allow Mongolia to meet its repayment obligations in the near and mid-term period.
Construction risk	Medium/ High	The Project includes constructing a large residential complex. A design and build contract with one single contractor will be tendered to mitigate cost overrun risks and to ensure that the expected completion timings and building energy performance are met. [REDACTED]. The risk will be further mitigated by applying the Bank's PP&R to ensure an experienced and a creditworthy contractor is selected.
Implementation risk	Medium/ High	[REDACTED]. A PIU will be established by the City and supported by the Project Implementation Support consultant. As part of the investment programme,

		financing for the PIU's operating and administrative costs [REDACTED] from the EBRD loan is envisaged.
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2. MEASURING / MONITORING SUCCESS

This sub-project will be monitored individually. Information collected at sub-project level will be aggregated and used to inform Framework level monitoring. The TI objectives of the GrCF2 Framework and the relevance for this sub-project are detailed in the tables below:

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
<ul style="list-style-type: none"> - On-time project implementation - Compliance with high energy efficiency standards 	<ul style="list-style-type: none"> - Completion according to the timeline and within the budget - Obtaining EDGE certification for the Project 	[REDACTED]

<i>Indicator</i>	<i>Projected Impact</i>	<i>Implementation Timing</i>
Green		
Total Population benefitting from improved living conditions (individuals)	[REDACTED]	[REDACTED]
Annual reduction in tonnes of CO ₂ equivalent savings (tonnes CO ₂ equivalent/year)	[REDACTED]	[REDACTED]
Annual energy savings (GJ/year)	[REDACTED]	[REDACTED]
Renewable Energy Capacity Installed (MW)	[REDACTED]	[REDACTED]
Annual m ³ of water savings or wastewater treated (m ³ /year)	[REDACTED]	[REDACTED]
Valorised Climate Resilience Benefit (EUR million)	[REDACTED]	[REDACTED]

Primary quality: Green								
Obj. No.	FW Monitoring Indicator	Corresponding Sub-Project Monitoring Indicator	Details (FW)	Details for Specific Sub Operation	Baseline (sub operation)	Target (sub operation)	Due date (sub operation)	TC
1.1	Number of recommended policy or strategy agreed by relevant stakeholder(s)	Recommended policy or strategy agreed by relevant stakeholder(s)	New Green City Action Plans: [REDACTED] new GCAPs finalised and submitted for approval by relevant authorities, and includes priority actions and a monitoring strategy in each participating City. Baseline target of the GrCF and GrCF2 combined is [REDACTED] GCAPs.	Ulaanbaatar's GCAP approved by the City in December 2019.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Performance or action plan implemented by the client	Performance or action plan implemented by the client	Strong follow-on support: 50 per cent of transactions (under GrCF2 and future extensions) are follow-on investments addressing priority environmental challenges identified in the GCAPs.	Follow-on – the Project is the City's second follow-on investment from the GCAP, which addresses the priority environmental challenges of air quality, water quality and climate change.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Performance or action plan implemented by the client	Performance or action plan implemented by the client	Multiple green investments: Each participating city makes [REDACTED] investments (with or without EBRD financing) that address priority environmental challenges identified by the GCAP, where all EBRD financed projects will meet the extended Framework's eligibility criteria for investments.	The Project will be signed and implemented and meets the eligibility criteria for investments under GrCF2, as it addresses three priority environmental challenges identified in the GCAP – air quality, water quality and climate change by reducing GHG by 988 tCO ₂ /y, water [REDACTED], energy [REDACTED], while yielding significant resilience benefits.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.4	Performance or action plan implemented by the client	Performance or action plan implemented by the client	Effective GCAP implementation: The Framework achieves at least 50 per cent of all verifiable targets, set in the GCAP [REDACTED] (including both investments and well-defined policy measures).	Follow on – the Project will promote the implementation of a priority action from the Ulaanbaatar GCAP, namely, Action 1. Develop green affordable housing in ger areas.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.5	Improved environmental standards	Improved environmental standards	Environmental impact: The Framework achieves significant environmental improvements for at least one priority environmental challenge, i.e. the promotion or protection of certain performance levels (colour codes) for priority environmental challenges as specified in the GCAPs, for more than 50 per cent of the Green Cities.	While the Project will deliver GHG, water and energy savings, and result in significant climate resilience benefits, the relevant environmental improvements within respective cities will not be monitored at project level.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Secondary quality: Well-governed								
Obj. No.	FW Monitoring Indicator	Corresponding Sub-Project Monitoring Indicator	Details (FW)	Details for Specific Sub-Project	Baseline (Sub-Project)	Target (Sub-Project)	Due date (Sub-Project)	TC
2.2	Number of Public service contract or Public Service Obligation signed and implemented	Public service contract or Public Service Obligation signed and implemented	A new service contract in line with international practice is developed and signed [REDACTED] and respected by the parties during the first 2 years of the contract – and where such contract is not a norm in the country.	A performance-based contract with improved standards introduced between the City and contractors	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.5	Number of institution-level capacity strengthened in target area	Institution-level capacity strengthened in target area	Promote and help implement priority policy actions, as identified in the GCAP, enabling governance or land planning improvements.	Develop and adopt the City's ICDP, including on development of contract terms and procedures for affordable housing schemes with higher energy standards, as well as replication by the private sector.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Additional Indicators

Obj.	FW level aggregate indicator	Indicator Sub-Project)	Details (Sub-Project)	Baseline (Sub-Project)	Target (Sub-Project)	Due date (Sub-Project)	TC
Core client indicators	Total Population benefitting (individuals)	Total Population benefitting from improved living conditions (individuals)		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	Annual reduction in tonnes of CO2 equivalent savings	Annual reduction in tonnes of CO2 equivalent savings		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	Annual energy savings	Annual energy savings (GJ/yr)		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	Renewable Energy Capacity Installed	Renewable Energy Capacity Installed (MW)		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	Annual m3 of water savings	Annual m ³ of water savings (m ³ /year)		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Gender SMART	Number of stakeholders with practices improved	Practices of the relevant stakeholder improved (e.g. inclusive infrastructure services/design, inclusive HR policies and practices, equal opportunities, inclusive procurement practices)	The Project will assist the City in developing a gender-inclusive affordable housing policy and in promoting gender equality in its operations.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

The Bank will extend the loan to Mongolia for the City's benefit. This will be the EBRD's fifth sovereign project in the country. The Project is aligned with the country's priorities and was approved by the Government of Mongolia to be implemented under a USD 300 million Framework Agreement (the "FA") between the EBRD and Mongolia, signed on 18 September 2019. [REDACTED].

3.2 IMPLEMENTING AGENCY

The Project will be implemented by the PIU, a separate budgetary entity to be established by the City. The PIU's operating and administrative costs (including PIU staff) will be financed by the Bank from the loan proceeds. Detailed information is provided in Annex 1.

The City accounts for about 64 per cent of Mongolia's GDP and headquarters of large mining companies are also located in the City. However, corporate income tax is collected at the national level, so the City mainly relies on personal income and property taxes. The upper budget then supports the City's social spending through subsidies. [REDACTED].

The City's debt include sovereign loans from the ADB, World Bank and EBRD, on-lent to the City by the Ministry of Finance. [REDACTED].

4. MARKET CONTEXT

In 2006, the Government of Mongolia established State Housing Corporation ("TOSK"), which is responsible for implementing the Government's housing policies and provide affordable housing throughout the country. To date, TOSK has implemented two projects in the City for around 5,000 apartment units, with most apartments sold and some rented out.

The Government of Mongolia attempted to engage private sector developers in affordable housing projects in the City through competitive selection to re-develop ger areas. [REDACTED].

Taking into account the growing demand for apartments, the City established a municipal company Capital City Housing Corporation ("NOSK") in 2015 to carry out affordable housing projects. Following a recent reorganisation, the City has established a Capital City Housing Policy Agency, which is solely entrusted with ger area redevelopment and acceleration of affordable housing construction. This Agency is currently responsible for all housing projects in Ulaanbaatar (including sovereign financed) up until construction completion, while the operation and management of the completed projects is expected to be performed by NOSK.

The EBRD project is well placed to support the Government's efforts in providing affordable, but also low-carbon and climate-resilient housing. This is reflected in the Government Action Plan for 2020-2025 that aims to "reorganize ger areas and accelerate the construction of green civil buildings and residential construction".

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Category B (2014 ESP) [REDACTED]. The Project appraisal confirmed that the Project's potential environmental and social impacts are site-specific and readily addressed through effective mitigation measures. Environmental and social due diligence was undertaken by a consultant as part of the feasibility study and included a review of the location and proposed residential development designs, an assessment of the City's capacity to manage E&S risks and impacts and contractors during construction, and analysis of the social impacts and benefits of affordable rental and rent-to-own housing to ger residents. This included assessing access to key infrastructure and services for future residents. The appraisal considered gender-specific impacts and opportunities in developing mitigation measures and technical assistance to the City.

The Project will provide access to affordable, energy efficient and climate resilient housing for specific low-income groups of ger area residents who have no access to basic utilities (connection to water, wastewater, heating, solid waste collection). It will not involve any involuntary resettlement of ger residents displaced by other urban development projects currently under way. The development will include a commercial area, a community centre for women and children, common green areas, resident parking and access roads to existing thoroughfares. Around 700 households will directly benefit from improved living standards.

The Project will result in significant benefits, particularly for women, in terms of time previously spent collecting water and fuel for cooking and heating in ger area households. It will provide for better air and water quality in the new housing units. The Project site is conveniently located to public transport, healthcare and grocery stores and provides a community space, which will include the provision of onsite childcare services, developed in parallel by the City of Ulaanbaatar. Separate technical cooperation will support the City with developing gender-inclusive affordable housing policy and promoting gender equality in its operations. The new housing also provides for around 35 units accessible to disabled persons on the ground floor of each residential building. A minimum of 30 per cent of the site area will be used for green areas, recreational activities, walking and cycling lanes, etc.

The main adverse impacts to be mitigated during construction include air quality (generation of dust and gaseous emissions), vehicles and machinery noise, waste disposal, road safety and access restrictions. These will be managed through specific management plans developed with

the support of a PIU and support consultant, and implemented by construction contractors and sub-contractors.

The consultant has developed a stakeholder engagement plan, which the City, PIU and contractors will use to ensure that project affected residents are informed in a timely manner of construction activities, impact mitigation measures, and grievance channels.

An ESAP has been developed to detail the objectives, activities schedule and responsibilities to manage the Project's risks and impacts. It sets indicators against which City, PIU and Contractor performance can be measured. The ESAP sets out the requirement for the Project to have Environmental, Social, Health and Safety Management System and Management Plans in place before construction starts. A General Environmental Impact Assessment (GEIA) still needs to be submitted as per Mongolian regulations; the resulting requirements for an EMP or Detailed EIA (DEIA) will need to be fulfilled. The ESAP has been agreed with the City.

6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was undertaken on the Ministry of Finance, the City, senior management and officials relevant to the Project. [REDACTED] [I]t has been concluded that [REDACTED] this Project does not pose an unacceptable reputational risk to the Bank. [REDACTED].

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project, and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the Project.

6.3 OTHER ISSUES

The use of an investment grant of USD 5 million is justified on the grounds of a monetary equivalent reduction in carbon emission [REDACTED], in addition to the proposed investment's high environmental and social benefits. These benefits stem from the application of the Bank's standards requiring buildings to have highly efficient resource use and the adoption of climate-resilient solutions [REDACTED].

The Project is eligible for the GCF grant under EBRD Green Cities Facility as a climate adaptation investment project due to the climate resilience benefits [REDACTED] from reduced human exposure to extreme weather events, reduced risk of damages to assets and increased water availability.

ANNEXES TO OPERATION REPORT

ANNEX 1	PROJECT IMPLEMENTATION AND PROCUREMENT PLAN
ANNEX 2	IMPLEMENTATION PROGRESS OF GRCF / GRCF2
ANNEX 3	PROJECT EIRR
ANNEX 4	GREEN ASSESSMENTS
ANNEX 5	ULAANBAATAR'S ENVIRONMENTAL CHALLENGES

ANNEX 1. PROJECT IMPLEMENTATION AND PROCUREMENT PLAN

Procurement classification –

Public (sovereign)

[REDACTED]. The City's procurement and implementation capacity has been assessed by the Bank's operational team in March 2021 without using a formal toolkit due to pandemic restrictions at the time. The City has certain experience in implementing IFI-financed projects [REDACTED].

Contracts risk assessment

Moderate high

The Project includes the design and construction of around 712 housing units as well as associated infrastructure, including commercial area, a community centre for women and children, common green areas, resident parking and access roads to existing thoroughfares. Procurement of this component will be made under a Design-Build contract, with a single contractor responsible for the detailed design and construction of the project infrastructure. Considering the Project's scope, [REDACTED], the contract risk is assessed as moderate high.

Project implementation arrangements:

The City will be a Project Implementing Entity based on the financing documents. It will establish a Project Implementation Unit (PIU) with overall responsibility for the Project's implementation. To mitigate the lack of the client's capacity, a TC funded Project Implementation Support (PIS) consultant will be mobilised to assist the PIU by, among other, preparing tender documents, manage tendering, supervise the design and works execution, including E&S related activities, as well as help with loan reporting. An individual procurement consultant was mobilised by the Bank from PPAD's Capacity Building Framework to support the City to select the PIS consultants.

The PIU operational costs, including staff, are intended to be financed by the loan proceeds, hence, it will be established as a separate legal entity by the City to be 100 per cent owned by it. PIU's function, terms of reference and staff qualifications have to be acceptable to the Bank. It is envisaged that these will be monitored through the following arrangements. The PIU shall (i) adopt and operate in accordance with the acceptable to the Bank PIU Operational Manual (POM) which is expected to set out the institutional, disbursement, procurement and financial management arrangements (including appointment of core staff and their performance management as well as budgeting, project related internal controls, external auditing, financial reporting and accounting procedures) for the Project's implementation in line with the PP&R; (ii) carry out the Project in accordance with the PP&R and POM; and (iii) not amend, suspend, repeal or waive any provisions in the POM without the Bank's prior written agreement. These arrangements will be reflected in the loan documentation.

Procurement arrangements:

The Project is classified as public sector for procurement purposes. Procurement of all goods, works and services including consulting services for the Project will follow open competitive procedures via ECEPP in accordance with the requirements of the EBRD PP&R, 2022 edition, for public sector operations. The Bank's appropriate Standard Procurement Documentation will be used and FIDIC Conditions of Contract for Construction based on the Employer's design are expected to form the General Conditions of Contract for works.

PIU staff shall be procured in accordance with the POM.

All Loan-financed as well as capex grant-financed contracts will be subject to prior review by the Bank.

The Procurement Plan below provides the details of planned investment and consultancy assignments. [REDACTED].

ANNEX 2. IMPLEMENTATION PROGRESS OF GRCF / GRCF2

Since 2016, the GrCF and GrCF2 have mobilised nearly EUR 5 billion in EBRD and donor funding. The Green Cities Framework (GrCF), approved by the Board in November 2016, set an ambitious agenda for the Bank's municipal business, with the over-arching aim being 'to serve as a sector-wide catalyst for addressing environmental challenges at the City level'. [REDACTED] [I]n October 2018 a new Framework was approved by the Board, Green Cities Framework 2 (GrCF2) [REDACTED].

ANNEX 3. PROJECT EIRR

[REDACTED]

ANNEX 4. GREEN ASSESSMENTS

Introduction

The Project will finance the construction of around 712 low-carbon and climate-resilient housing units and associated infrastructure. The buildings will achieve EDGE certification ensuring at least a 20 per cent improvement in performance in the area of water, energy and material.

The Project is assessed as **PA aligned** and qualifies for **100 per cent GET** finance.

The Project is **eligible for EBRD Green Cities** as it meets the technical criteria for mitigation projects.

Paris alignment assessment

Alignment with the mitigation goals of Paris Agreement

- The project/economic activities are **included** in the 'aligned list'. The Project is part of the jMDB positive list by achieving a green building certification and therefore is automatically aligned against mitigation objectives of the Paris Agreement.
- Regarding project/economic activities, there are **no** activities included in the 'non-aligned list'

Conclusion: The project is assessed as aligned with the adaptation goals of Paris Agreement (BB1 aligned).

Alignment with the adaptation goals of Paris Agreement

The Bank's internal screening results revealed that the project is deemed not significantly exposed to physical climate risks.

- The Project is unlikely to undermine climate resilience of the system in which it operates.
- The Project is also conclusive with relevant national climate resilience policy in Mongolia NDC.

Conclusion: The project is assessed as aligned with the adaptation goals of Paris Agreement (BB2 aligned).

GET attribution

The Project claims mitigation, adaptation and environment GET finance. The Project will finance the construction of residential buildings blocks with around 712 housing units [REDACTED]. The new residential housing will meet advanced sustainability criteria and targets green building certification EDGE. The majority of the new housing units will provide accommodation for residents of the ger-area, currently living in sub-standard houses with low energy performance. The Project was assessed during the feasibility study and considered various sustainability and climate adaptation measures. The improved building design will incorporate energy efficiency and renewable energy features including improved insulation, high efficient windows, LED lighting, low air infiltration, heating control and regulation. The following environmental benefits have been determined:

- Energy savings [REDACTED];
- CO2 emission reduction of 988 tonnes per annum;
- Water savings [REDACTED] per year;
- Material savings which result in reduction of embodied energy [REDACTED];
- In addition, through integration of climate adaptation measures the Project will increase climate resilience for beneficiaries by responding to and mitigating the potential damages of extreme weather events, particularly flooding, extreme heat and water stress. [REDACTED].

Green Finance Project Monitoring Plan

The green finance project monitoring plan is aligned with the TI benchmarks. The Bank will monitor indicators including annual energy and water savings (in GJ/year and m³/year respectively) via the Environmental and Social Action Plan (“ESAP”).

ANNEX 5. ULAANBAATAR'S ENVIRONMENTAL CHALLENGES

Air pollution in Ulaanbaatar



Source: World Bank, picture by Hannah McDonald-Moniz

Ger area settlement



Source: MAD, 2017