

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Foci and Key Activities

1. The Asian Development Bank (ADB) is an important partner of Mongolia in its energy sector, with ADB's assistance amounting to \$118.30 million across 28 projects as of 31 December 2017.¹ Addressing climate change and growing challenges from air pollution in Mongolia's urban and remote rural areas, ADB operations are centered on meeting growing demand for heat and power generation and distribution with advanced technology projects aimed at well-managed energy infrastructure to reduce emissions and improve energy efficiency. ADB's investment projects in Mongolia have included support for improvements in (i) district heating systems in Ulaanbaatar, (ii) reliable and affordable electricity supply in remote rural areas, (iii) energy efficiency in heating services in remote rural areas, and (iv) housing energy efficiency of poor households.

2. ADB has provided 22 technical assistance (TA) projects valued at about \$16 million in Mongolia's energy sector since 1991. The TA has supported the development of (i) a legal and regulatory framework for energy conservation and emission standards, (ii) an updated energy sector master plan, (iii) a renewable energy investment plan, (iv) improvements in wind power penetration in the power system, and (v) regional knowledge sharing within the Central Asia Regional Economic Cooperation (CAREC) framework. In March 2018, ADB approved a policy-based loan for the Ulaanbaatar Air Quality Improvement Program, which helps implement the National Program for Reducing Air and Environmental Pollution, 2017–2025.² Several energy sector projects of international development partners have been realized in the capital city, the coldest in the world, where half of Mongolia's population lives. Through the policy-based loan, ADB will gain a leading role in (i) promoting cleaner fuel distribution for heating and cooking, (ii) expanding the district heating network, and (iii) deploying renewable energy-based heating systems while reducing air pollution in Mongolia's main urban areas.

3. In 2015, ADB led multilateral development banks (European Bank for Reconstruction and Development, and the World Bank Group) to help the government prepare the renewable energy investment plan. The investment plan will help meet medium- and long-term renewable energy targets through a two-track approach: (i) strengthening the energy policy and regulatory framework to stimulate private sector-led development, and (ii) upscaling rural renewable energy in remote grid systems through the development of distributed renewable energy systems in remote and less-developed regions of western Mongolia. In November 2015, the investment plan was endorsed by the Scaling Up Renewable Energy Program in Low Income Countries (SREP) subcommittee, with total indicative grant financing of \$30 million.³

4. The Japan International Cooperation Agency (JICA) is another major source of external assistance to the energy sector of Mongolia. JICA has provided significant assistance for the upgrading of combined heat and power (CHP) plant no. 4 in Ulaanbaatar since the early 1990s.

¹ ADB. 2018. *Asian Development Bank Member Fact Sheet: Mongolia*. Manila.

² ADB. 2018. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan to Mongolia for the Ulaanbaatar Air Quality Improvement Program*. Manila.

³ The SREP is a Climate Investment Fund subprogram that supports transformation in eligible developing countries through the deployment of scaled-up renewable energy solutions. The first pillar of the investment plan is being implemented with \$1.2 million in World Bank TA to support regulatory framework strengthening, including grid control, licensing, and feed-in-tariff adjustments. SREP grant cofinancing of \$28.5 million supports project preparatory TA (\$1.5 million), and distributed renewable energy development under ADB (\$14.6 million) and the World Bank (\$12.4 million).

Beyond traditional power generation projects, JICA assistance has been directed at renewable power generation and power transmission projects, as well as training programs to improve maintenance skills. JICA is also currently focused on air pollution control in Ulaanbaatar, apart from its ongoing support for CHP plant no. 4. Another major multilateral financier of energy projects in Mongolia is the European Bank for Reconstruction and Development (EBRD). Ongoing EBRD projects include the buildup of the first commercial wind farm and a financing facility to fund commercial bank loans to businesses wanting to invest in energy-efficient and renewable energy technologies, as well as the Tsetsii (cofinanced with JICA) and Sainshand (cofinanced with the European Investment Bank) wind farm projects, aimed at reducing Mongolia's carbon intensity and meeting its increasing power demand. KfW, also an important multilateral financier in Mongolia's energy sector, maintains a focus on sustainable supply, emission reduction, and energy efficiency for heat and power generation and distribution. KfW has several ongoing projects, including the modernization of CHP plant no. 4 in Ulaanbaatar and the CHP plant in Darkhan.

5. German development cooperation through GIZ has worked with KfW and other German development agencies to establish training facilities for power companies in Mongolia over the past decade. Since 2007, GIZ has been supporting the development of an energy efficiency strategy, including an analysis of the entire heat and electricity generation and distribution network. The World Bank has also provided assistance to improve electricity distribution and increase renewable energy access in rural areas. Since 2017, it has implemented the Second Energy Sector Project, which aims to strengthen the electricity distribution system in the Baganuur Southeastern Region Electricity Distribution Network and the Erdenet-Bulgan Electricity Distribution Network, and to build a solar photovoltaic power plant in Myangad of Hovd province. USAID has assisted Mongolia in energy infrastructure improvements and energy sector reform, and the Millennium Challenge Corporation has provided significant assistance to address air pollution in Ulaanbaatar. But neither USAID nor the Millennium Challenge Corporation has ongoing projects in Mongolia's energy sector. The table shows the ongoing projects of the major development partners in Mongolia's energy sector.

Major Development Partners

Development Partner	Project Name	Duration	Amount (\$ million)
EBRD	Mongolian Sustainable Energy Financing Facility	2014–2017	25.0
	Salkhit Wind Farm Project	2012–2017	47.5
	Tsetsii Wind Farm Project	2016–2017	25.0
	Sainshand Wind Farm Project	2017–2018	30.0
	Energy Efficiency for the Grid-Connected Energy Supply	2014–2016	8.2 (€7.7 million)
KfW	Renewable Energy Programme ^d		6.5 (€6.1 million)
	Energy Efficiency Programme I		11.2 (€10.5 million)
	Energy Efficiency Programme II		9.0 (€8.5 million)
JICA	Combined Heat and Power Plant No.4 Optimization Project	2013–2020	34.0 (¥4,201 million)
World Bank	Second Energy Sector Project	2017–2022	42.0

EBRD = European Bank for Reconstruction and Development, GIZ = Deutsche Gesellschaft für Internationale Zusammenarbeit, JICA = Japan International Cooperation Agency, TA = technical assistance.

B. Institutional Arrangements and Processes for Development Coordination

6. Mongolia is a signatory to several bilateral and multilateral agreements with neighboring countries and international organizations. Its Energy Working Group, chaired by the Ministry of Energy and comprising ADB, the EBRD, German development cooperation through GIZ, JICA, KfW, the World Bank, and others, has been coordinating sector and subsector demarcation among donors since April 2007. Given the existing cooperation mechanisms in the energy sector and the increasing focus of all development partners on supporting energy efficiency and air pollution reduction measures in Mongolia, there is a need for more project-specific collaboration and coordination to ensure that the assistance is used effectively and efficiently. The Energy Sector Coordinating Committee of CAREC guides strategic decision-making and planning for all energy-related investments among the CAREC member government ministries and relevant agencies. ADB, the EBRD, and the World Bank are three of the six development partners that help CAREC mainstream regional cooperation in transport, trade, and energy.

C. Achievements and Issues

7. ADB, EBRD, and the World Bank are major donors in renewable energy development in Mongolia, including through preparation of the renewable energy investment plan, which involves sector assessment, necessary regulatory reforms, and an investment plan to guide renewable energy deployment to meet medium- and long-term renewable energy targets by 2030 (para. 3). Upon government endorsement of the investment plan in 2015, EBRD approved a total of 102 megawatts of wind farm projects (para. 4). The World Bank also approved the 10-megawatt solar photovoltaic power plant in Hovd, in the western region, as a part of the Second Energy Sector Project (para. 5). A renewable energy regulatory framework strengthening program, such as through an automatic renewable energy surcharge adjustment under the investment plan, is being implemented with the World Bank's TA. ADB's Private Sector Operations Department has also started exploring possible finance to accelerate private sector-led renewable energy development. However, there is only occasional interaction between major donors and the government with regard to policy and regulatory support, and selection of renewable energy investments.

D. Summary and Recommendations

8. The coordination function of the renewable energy division within the Ministry of Energy needs to be strengthened to ensure frequent interaction with donors supporting renewable energy development in Mongolia and to achieve the government's long-term renewable energy target by 2030 in an effective manner. A stronger coordination function is expected to (i) facilitate the sharing of lessons learned in the donor-funded projects, (ii) avoid potential overlap of TA projects, and (iii) ensure coordinated investment in renewable energy development. Output 3 (institutional framework strengthened and organization capacity enhanced) under the project will also involve close coordination with donors in the preparation of a renewable energy investment plan (2023–2030) for the western Mongolia, with the aim of promoting continuous investment in renewable energy in the targeted regions beyond 2023.