



Report and Recommendation of the President to the Board of Directors

INTERNAL

Project Number: 50091-006
February 2024

Proposed Loan for Additional Financing Mongolia: Sustaining Access to and Quality of Education During Economic Difficulties Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 2 January 2024)

Currency unit	–	togrog (MNT)
MNT1.00	=	\$0.0002908
\$1.00	=	MNT3,438.42

ABBREVIATIONS

ADB	–	Asian Development Bank
GAE	–	General Authority for Education
MES	–	Ministry of Education and Science
OP	–	operational priority
PIU	–	project implementation unit

NOTES

- (i) A school year (SY) starts on 1 September and ends on 15 June of the following year.
- (ii) In this report, “\$” refers to United States dollars.

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PROJECT AT A GLANCE

1. Project Data			
Project number	50091-006	Project name	Sustaining Access to and Quality of Education During Economic Difficulties Project (Additional Financing)
Country	Mongolia	Executing or implementing agency	Ministry of Education and Science
Borrower	Mongolia		
Sector office	Human and Social Development Sector Office	Geographical location	Country
Sector	Education	Subsector	Education sector development Pre-primary and primary Secondary
Country economic indicators	https://www.adb.org/Documents/Links/Docs/?id=50091-006-CEI	Portfolio at a Glance	https://www.adb.org/Documents/Links/Docs/?id=50091-006-PortAtaGlance
Operational priorities	OP1: Addressing remaining poverty and reducing inequalities OP2: Accelerating progress in gender equality OP3: Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability OP6: Strengthening governance and institutional capacity	Sustainable Development Goals	SDG 4.1, 4.2, 4.5, 4.a SDG 13.a SDG 16.7
Lending modality	Project loan		
2. Financing			
ADB Financing		Amount (\$ million)	
Concessional ordinary capital resources loan		15.00	
Cofinancing		Amount (\$ million)	
None		0.00	
Counterpart		Amount (\$ million)	
Government		0.67	
Total		15.67	
ADB Climate Financing			
ADB			
Adaptation		0.63	
Mitigation		3.89	
Cofinancing			
Adaptation		0.00	
Mitigation		0.00	
Total		4.52	
Currency of ADB Financing: US Dollar			
3. Climate Change			
Absolute GHG emissions (tCO ₂ e per year)			
Relative GHG emissions (tCO ₂ e per year)			469
Climate change risk on the project without adaptation measures			Low
4. Private Sector Development			
Private capital mobilized (\$):			
5. Safeguards			

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

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to Mongolia for the additional financing of the Sustaining Access to and Quality of Education During Economic Difficulties Project (ongoing project). The loan will scale up and extend the socioeconomic benefits of the project by constructing nine additional climate-friendly schools and kindergartens in the country and equipping them with the required furniture and equipment.

2. The Asian Development Bank (ADB) approved the ongoing Sustaining Access to and Quality of Education During Economic Difficulties Project¹ on 20 November 2017—which is financed by a loan of \$50 million and a government contribution of \$0.69 million—to support the government in improving access to and the quality of pre-primary, primary, and secondary education, which were deteriorating as a result of growth in the number of kindergarten and school-age children, and unaccomplished curriculum and assessment system reforms. The 21 schools and kindergartens to be constructed and expanded under the current project are in Govi-Altai, Darkhan-Uul, Govisumber, and Khuvsgul *aimags* (provinces), and Ulaanbaatar city. The project is supporting the government to improve the accessibility and quality of pre-primary, primary, and secondary education in line with the growth of the population of kindergarten and school-age children. The current loan closing date is 28 February 2025.²

II. THE PROJECT

A. Rationale

3. The project meets the eligibility criteria for additional financing and is performing well:
- (i) **Implementation progress.** Cumulative contract awards are at 78.1% and disbursement at 69.2% of the net loan amount.
 - (ii) **Delivery of expected project outputs.** The project is on track to meet its outcome. As of the additional financing appraisal, project implementation was on track with overall progress in delivering expected outputs of 80% (output 1 is at 69%, output 2 at 82%, output 3 at 100%, output 4 at 67%, and output 5 at 80%).
 - (iii) **Compliance with fiduciary and safeguards policy requirements.** The project followed the agreed financial management arrangements. The financial management action plan has been adequately implemented. The review of safeguards compliance confirms that the project has no safeguards policy compliance issues and that all safeguard covenant items are being complied with. The semiannual environmental monitoring report has been submitted on time.
 - (iv) **Risk management.** All risks included in the risk assessment and risk management plan have been successfully managed.
 - (v) **Project performance rating.** The project is rated *on track* in the eOperations system.
4. The use of the additional financing modality is suitable because it will enhance the overall project outcome and development results by increasing the number of schools and kindergartens to be constructed from 21 to 30, and thereby increasing the overall capacity of and access to kindergartens and schools.

¹ ADB. [Mongolia: Sustaining Access to and Quality of Education During Economic Difficulties Project](#).

² Approved Report and Recommendation of the President for the Original Project (Annex 3).

5. **Insufficient capacity of public schools.** The enrollment capacity of public schools and kindergartens has failed to meet the needs of the growing school-aged population. As of SY2022/23, there were a total of 859 schools in Mongolia, including 688 (80.1%) public schools. There are 985 public kindergartens (69.7% of kindergartens) that provide 3 years of pre-primary education at no cost. In 2021, gross enrollment rates reached 97.0% for primary education, 96.3% for junior secondary, and 96.7% for senior secondary education.³ During SY2018/19 to SY2022/23, student enrollment in public schools increased by 23.5%, outpacing the rate of increase in the number of public schools (4.9%). While the number of kindergartens increased by 10.8% through construction of 96 new kindergartens, public kindergarten enrollment increased by just 4.2%.⁴ Expansion in student enrollment was particularly significant in Ulaanbaatar, surging by 38.0% in schools and 6.8% in kindergartens during SY2022/23, largely because of rural–urban migration. Six schools operated in three shifts⁵ during SY2022/23, including three in Ulaanbaatar, and average class sizes in Ulaanbaatar (33.5 in schools, and 30.2 in kindergartens) exceeded the national average (30.2 in schools and 29.9 in kindergartens). Increases in the school-age population are likely to continue, along with the number of schools operating three shifts, which is expected to grow to 68 in SY2023/24, including 47 schools in Ulaanbaatar and 21 in rural areas.⁶

6. **Decreasing public spending on education.** The coronavirus disease (COVID-19) pandemic caused economic growth to decelerate, with gross domestic product contracting by 4.6% in 2020 and growth of just 1.6% in 2021. As a result, government budget expenditure on education decreased to MNT1,717.1 billion in 2020 and MNT1,707.8 billion in 2021, from MNT1,863.6 billion in 2019. Capital budget expenditures were severely cut, from MNT616.5 billion in 2019 to MNT323.4 billion in 2020, and in 2023 remained below the pre-pandemic level, at MNT529.3 billion.⁷ This shortfall in available government resources underlies the government's request for additional financing from ADB to expand the activities of the ongoing project.

7. **Strategic alignment.** The ongoing project and the additional financing continue to be aligned with the key priorities set out in the long-term development policy of Mongolia's Vision 2050,⁸ the 5-year development guidelines for 2021–2025,⁹ the government action plan for 2020–2024,¹⁰ and the Education Sector Medium-term Development Plan for 2021–2030¹¹ that include (i) providing equal, inclusive, and practical educational services; (ii) allowing every child in urban areas to enroll in a kindergarten; (iii) alleviating over-enrollment and eliminating three shifts in schools; (iv) introducing a system to evaluate education quality and results at all levels of education; (v) building an education system based on standards; and (vi) education digitization. The project is also in line with ADB's Strategy 2030 Education Sector Directional Guide,¹² which emphasizes three clusters of investment, of which one is foundational learning. This includes early childhood education and improved school facilities (for health, hygiene, water and sanitation, nutrition, and digital learning) to ensure equity and a safe, learner-friendly environment, informed by lessons from the pandemic and other disasters. It prioritizes achieving equitable, universal,

³ National Statistics Office. 2023. *Statistical Information Services*. Ulaanbaatar.

⁴ Government of Mongolia, Ministry of Education and Science (MES). 2022. *Education Statistics*. Ulaanbaatar.

⁵ Three-shift schooling is a type of school which operates in three shifts, with one group of students in the building early in the day, a second group of students in the afternoon and third group of students in the late afternoon.

⁶ Government Mongolia, MES. 2023. *Report of Working Group*. Ulaanbaatar.

⁷ National Statistics Office. 2023. *Statistical Information Service*. Ulaanbaatar.

⁸ State Great Kural. 2020. *Mongolia's Vision-2050*. Ulaanbaatar.

⁹ State Great Kural. 2020. *Mongolia's Five-Year Development Guidelines for 2021–2025*. Ulaanbaatar.

¹⁰ State Great Kural. 2020. *Government Action Plan, 2020-2024*. Ulaanbaatar.

¹¹ Government of Mongolia, MES. 2020. *Education Sector Medium-Term Development Plan for 2021–2030*. Ulaanbaatar.

¹² ADB. 2022. *Strategy 2030 Education Sector Directional Guide*. Manila.

and high-quality secondary education to accelerate the achievement of all Sustainable Development Goals, especially those for gender and rural transformation. The project is also aligned with ADB's current country partnership strategy for Mongolia, 2021–2024,¹³ which targets increased access to primary and secondary education. The overall project will contribute to ADB's operational priorities (OPs). Specifically, in total, 232,281 people will benefit from improved education services (OP 1.1), 145,119 people enrolled in improved education and/or training (OP 1.1.1); 30,085 women and girls are expected to complete secondary education and other training (OP 2.2); greenhouse gas emissions will be reduced by 469 tons of carbon dioxide equivalent per year (OP 3.1); and adoption and/or implementation by the government of two service delivery standards supported (OP 6.2.1).

B. Project Description

8. The additional financing will be used to expand the activities of the original project's output 1 to narrow the gap in enrollment capacity of schools and kindergartens through construction and expansion of eight schools and kindergartens which were dropped from the original project scope because of the shortage of funds due to the construction price increase exacerbated by the COVID-19 impacts. In addition, an expansion of a kindergarten in Khuvsgul *aimag* is proposed to be included in the scope of the additional financing because Khuvsgul has the largest class size in the country and faces severe shortage of kindergartens.¹⁴ The project will also provide the required furniture and equipment for the schools and kindergartens. The performance indicator for output 1 will be revised to reflect the number of schools and kindergartens and additional seats to be created through the additional financing. The impact, outcome, and other outputs of the overall project will remain unchanged from the ongoing project.¹⁵

9. The activities supported by the additional financing have a high degree of project readiness, and the required due diligence was carried out promptly and efficiently. The implementation capacity of the executing agency is well advanced, and the additional financing will benefit from the experience of the project implementation unit (PIU), which has addressed similar technical, economic, financial, and safeguard requirements in implementing the ongoing project. The detailed design, drawings, and cost estimates for the eight schools and kindergarten that were previously dropped from the original project and are now proposed to be supported with the additional financing, were prepared in 2020–2021. The design and cost estimates have been updated; and verified and approved by the Construction Development Center. For the Khuvsgul kindergarten, the existing design and drawings will be applied with slight adjustments. A list of technical specifications for all goods (including furniture) and equipment to be procured for the proposed schools and kindergarten, including to support provision of blended and online learning, are ready for bidding.

10. **Climate risk and its impacts on the education sector.** Mongolia faces recurring climate-related hazards, including floods, droughts, wildfires, *dzud* (severe winter conditions), extreme cold, and heatwaves. The vulnerability of Mongolia's schools and kindergartens to climate-related hazards is expected to increase, which could cause interruptions to the operation of schools and kindergartens, increased exposure of vulnerable children to extreme climate events such as extreme precipitation events, extreme cold, and/or heatwaves. The designs for all proposed

¹³ ADB. 2021. *Country Partnership Strategy: Mongolia, 2021–2024—Laying Resilient Foundations for Inclusive and Sustainable Growth* Manila.

¹⁴ As of SY2022/23, Khuvsgul *aimag* had the largest class size nationwide with 32.7 students per kindergarten class, compared to the national average of 29.9, and 30.2 in Ulaanbaatar.

¹⁵ Revised Design and Monitoring Framework (Annex 1).

buildings will incorporate climate adaptation and resilience measures, as well as energy efficiency, for sustainable operations of schools and kindergartens.

C. ADB Value Addition

11. The overall project includes a number of innovations with respect to school buildings and the learning environment. The adaptation and mitigation measures adapted for the project have been incorporated in the additional financing. The innovative construction design and technology will improve the insulation and heating systems, disaster-resilient features, facilities for students with disabilities, and age- and gender-inclusive sanitation. The project is developing smart classrooms that will help to expand online and blended learning,¹⁶ complementing the project funded by the Global Partnership for Education that aims to create contextually appropriate blended learning modules for improved learning. The project has also developed a comprehensive plan to reduce learning losses caused by COVID-19 that has been instrumental in improving student learning, with implementation supported jointly with other development partners including the Global Partnership for Education, the Japan International Cooperation Agency, the Swiss Agency for Development and Cooperation, the United Nations Children's Fund, and the World Bank.

D. Summary Cost Estimates and Financing Plans

12. The overall project is estimated to cost \$66.36 million (Table 1). The base cost will be allocated as follows: civil works (65.44%), equipment and materials (21.03%), training and workshops (5.91%), consulting services (3.64%), and project management (3.96%). The physical and price contingencies total \$3.39 million.

Table 1: Summary Cost Estimates
(\$ million)

Item	Current Amount ^a	Additional Financing ^b	Total
A. Base Cost^c			
1. Gap in enrollment capacity of schools and kindergartens narrowed	35.72	13.52	49.24
2. Unfinished curriculum and assessment system reforms completed	3.49	0.00	3.49
3. Teaching and learning materials accompanying the new curriculum provided	3.20	0.00	3.20
4. Teachers' and managers' knowledge and skills upgraded	2.13	0.00	2.13
5. Systems for planning and managing education services strengthened	0.43	0.00	0.43
6. Project management	1.32	0.24	1.56
Subtotal (A)	46.28	13.76	60.05
B. Contingencies^d	2.15	1.24	3.39
C. Financing Charges During Implementation^e	2.26	0.67	2.93
Total (A+B+C)	50.69	15.67	66.36

Note: Numbers may not sum precisely because of rounding.

^a Refers to the current project amount. Includes taxes and duties of \$2.06 million. Such amount does not represent an excessive share of the project cost. ADB will finance all taxes and duties.

^b Includes the government financing of \$0.67 million for interest during implementation for the additional financing loan.

^c The ongoing loan is based on mid-2017 prices as of 5 March 2017. The additional financing is based on prices as of 1 September 2023.

^d Includes physical and price contingencies and a provision for exchange rate fluctuation. Physical contingencies computed at 5% for base investment costs. Price contingencies computed at an average of 2.5% (original loan) and

¹⁶ Blended learning means some students will remotely attend classes from their homes, while others physically attend classes at schools.

1.8% (additional financing) on foreign exchange costs and 6.3% (original loan) and 8.8% (additional financing) on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

- ^e Includes interest charges (original loan and additional financing) and commitment charges (original loan). Interest during construction for (i) the original ADB ordinary capital resources (OCR) loan has been computed at the 5-year United States dollar fixed swap rate plus an effective contractual spread of 0.5% and maturity premium of 0.10%; and (ii) the additional financing OCR concessional loan has been computed at 2% interest per year. \$0.67 million will be paid from the government budget. Commitment charges (i) for the original OCR loan are 0.15% per year, to be charged on the undisbursed loan amount; and (ii) there is no commitment fee for the additional financing OCR concessional loan.

Source: Asian Development Bank estimates.

13. The government, through the additional financing, has requested a concessional loan of \$15 million from ADB's ordinary capital resources to help finance the project. The loan will have a 25-year term, including a grace period of 5 years; an interest rate of 2.0% per year during the grace period and thereafter; and such other terms and conditions set forth in the draft loan agreement.

14. The summary financing plan is in Table 2. For the additional financing, ADB will finance the expenditures in relation to civil works, equipment and materials, project management, physical and price contingencies, and taxes and duties. ADB will finance 95.7% of the total additional financing cost and the government will finance 4.3%, comprising \$0.67 million in interest during implementation.

Table 2: Summary Financing Plan

Source	Current ^a		Additional Financing		Total	
	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)
Asian Development Bank						
Ordinary capital resources (regular loan)	50.00	98.6	0.00	0.0	50.00	75.4
Ordinary capital resources (concessional loan)	0.00	0.0	15.00	95.7	15.00	22.6
Government of Mongolia ^b	0.69	1.4	0.67	4.3	1.36	2.0
Total	50.69	100.0	15.67	100.0	66.36	100.0

Note: Numbers may not sum precisely because of rounding.

^a Refers to the original amount.

^b Includes the government financing of taxes and duties for the ongoing project and interest during implementation for the additional financing loan. The government will finance taxes and duties of \$0.69 million (ongoing loan), as the government follows the accrual basis of accounting. The government will finance \$0.67 million of interest during implementation for the additional financing loan.

Source: Asian Development Bank estimates.

15. For the additional financing, climate mitigation is estimated to cost \$3.89 million and climate adaptation is estimated to cost \$0.63 million. ADB will finance 100% of mitigation and 100% adaptation costs. Both adaptation and mitigation finance have been calculated using the incremental method, in accordance with the Guidance Note on Counting Climate Finance at ADB. The operation has been assessed as aligned with the goals of the Paris Agreement.¹⁷

¹⁷ Effective 1 July 2023, all projects to be financed by ADB will be subject to the Joint Multilateral Development Banks' Assessment Framework for Paris Alignment for Direct Investment Operations.

E. Implementation Arrangements

16. The Ministry of Education and Science (MES) will continue to be the executing agency while the General Authority for Education (GAE) will be the implementing agency for the additional financing.¹⁸ The GAE was established in January 2022 as the government agency responsible for implementation of education sector investment programs funded by bilateral and multilateral development institutions. The project steering committee will include the representatives of the MES' affiliated agencies and civil society. The existing PIU will continue to be responsible for day-to-day project management and oversight responsibilities and will report to GAE. The experience of the PIU, gained through implementation of the ongoing project, will ensure timely and effective administration of the additional financing. The additional financing will be implemented over 35 months from 1 April 2024 to 30 August 2026. The additional financing loan will be closed on 28 February 2027. The procurement plan has been updated to include (i) nine civil works packages, and (ii) one package for procurement of furniture and equipment for the schools and kindergartens to be supported under the additional financing. Advance procurement is proposed for three civil works packages. Retroactive financing will not be applied.

III. DUE DILIGENCE

A. Summary Due Diligence Results

17. A summary of the due diligence assessments for the additional financing is presented in Table 3.

Table 3: Summary of Due Diligence Assessments

Area of Assessment	Summary of Assessment
Technical	<p>The additional financing will support the same type of activities as the ongoing project: construction and expansion of schools and kindergartens based on standard designs that have innovative and inclusive design features such as (i) disabled-friendly access, age- and gender-sensitive sanitation, signage, and handrails; (ii) low-height handwashing and toilet facilities for early grade students; and (iii) energy-efficient walls, roofs, and ground floor insulation; triple glazed windows; light-emitting diode lighting; and heat meters and regulators. Heating, water, and wastewater facilities linked to the constructed and expanded schools and kindergartens will be (i) compatible with available infrastructure for basic services onsite, and (ii) easy and inexpensive to operate and maintain. School and kindergarten furniture to be supplied will be of better quality and safer than the existing furniture, with sharp corners eliminated. All schools and kindergartens supported under the project will have facilities with (i) sound seismic designs to withstand earthquakes and winter snowstorms, (ii) improved flood control, and (iii) precipitation-resistant features. The increase in the school-age population has resulted in more schools with three shifts. Although official statistics state that there were only 6 schools operating three shifts in SY2022/23, the number of three-shift schools will reach 68 in SY2023/24, including 47 schools in Ulaanbaatar and 21 outside of Ulaanbaatar.^a The project will help reduce the number of three-shift schools.</p> <p>Climate change and disaster risk management. The climate risk and adaptation assessment conducted during processing of the additional financing has identified likely increases in precipitation and summertime temperatures that are expected to exacerbate waterlogging risks and increase the risk of wildfires</p>

¹⁸ Ulaanbaatar Metropolitan Education Department will continue to serve as the implementing agency for output 1 of the ongoing project.

Area of Assessment	Summary of Assessment
	for the proposed schools and kindergartens. Disaster-reduction measures have been integrated into the design, including (i) stormwater drainage, (ii) nature-based approaches to school campus landscaping, (iii) effective and sufficient fire protection equipment and procedures, and (iv) avoidance of school construction on existing pockets of permafrost. The design has also incorporated significant climate change mitigation measures. All school and kindergarten buildings will meet grade A energy efficiency certification, which will save 53% of energy relative to standard Mongolian schools. All subproject designs are required to include climate risk assessments and adaptation measures.
Economic and financial viability	The anticipated effects of a new kindergarten in Murun <i>soum</i> (subunit of an <i>aimag</i>), Khuvsgul <i>aimag</i> (province) are considered in combination with the anticipated effects of the original project, and the project intervention is assessed to be the most cost-effective option. The impact of the annual incremental recurrent costs of the project facilities on the MES recurrent cost budget is deemed affordable, supporting the sustainability of project benefits. The ADB project will only require 0.04% increase of the unconstrained O&M requirement.
Sustainability	Once the school and kindergarten buildings are constructed and commissioned, the government will be fully responsible for ensuring that the MES allocates sufficient funding to cover O&M costs. It has been assessed that the project will not substantially increase O&M costs.
Procurement, financial management, and integrity	<p>The overall financial management risk rating of the project before considering mitigating measures is <i>moderate</i>. Identified key weaknesses are (i) limited capacity of the implementing agency to directly implement projects funded by multilateral development banks, (ii) partially implemented asset management policies and procedures, (iii) weak internal audit functions within the implementing agency, and (iv) the absence of government-wide accounting software. However, some of these weaknesses are being mitigated by (i) a functional PIU that was established for the original project to assist MES and the newly established General Authority of Education in project implementation, and (ii) the procured accounting software that is being used by the PIU in preparing project financial statements. Other weaknesses will be mitigated by the (i) development of an internal audit work program, and (ii) provision of training for General Authority of Education finance and internal audit department staff members on ADB policies, disbursement procedures, and financial management requirements.</p> <p>The project procurement risk is assessed <i>substantial</i> due to the implementing agency's of lack of experience with projects funded by bilateral and multilateral institutions (the implementing agency was established in January 2022). The existing PIU is familiar with detailed policies and procedures and adequately staffed with qualified procurement specialists, which will effectively mitigate the identified risks and ensure compliance with the ADB's procurement guidelines^b and the Public Procurement Law of Mongolia.</p>
Gender equality	The project is classified <i>effective gender mainstreaming</i> . Direct beneficiaries of the overall project total 8,720 primary and secondary students (45% of whom are girls) and 2,995 pre-primary students (45% girls) in the newly constructed or expanded schools and kindergartens. The schools and kindergartens built under the project will have gender-sensitive sanitation facilities. Eliminating three-shift schools will reduce unnecessary risks (accidents and assaults) to which students are exposed, especially female students in the third shift, as they come home from classes that finish in the late evening (8 p.m. or 9 p.m.). Civil society organizations that are active in the education sector will be actively engaged during project implementation.

Area of Assessment	Summary of Assessment
Poverty and social dimensions	<p>The poverty rate in Mongolia declined from 29.6% in 2016 to 28.4% in 2018, and further to 27.8% in 2022. During 2016–2022, poverty in rural areas decreased by 4.4 percentage points, while in urban areas it increased by 0.6 percentage points. Rural–urban migration, particularly to Ulaanbaatar, results in rapid urban population growth and expansion of low-income, poorly serviced <i>ger</i> (traditional tent) areas in the city, which are the main destinations of rural migrants. Over half (56%) of the population in Ulaanbaatar city resides in <i>ger</i> areas. Rapid population growth resulted in the kindergartner and school-age population rising much faster than the number of schools and kindergartens, reducing the number of available seats and leading to overcrowding of existing schools and kindergartens, and poor-quality pre-primary education, and exacerbating existing inequalities. The project will directly benefit about 8,720 primary and secondary students and 2,995 pre-primary students in the newly constructed or expanded schools and kindergartens. Out of the 10 schools and 20 kindergartens that will be built or expanded, 4 schools and 9 kindergartens will be in low-income, poorly serviced Bayanzurkh and Songinokhairkhan districts. The newly constructed or expanded schools and kindergartens will have improved inclusive design features such as accessibility for children with disabilities, sanitation, signage, handrails, and gender- and age-inclusive sanitation, especially in Ulaanbaatar where 42% of the country's students study.</p>
Safeguards	<p>Environment (category B). The project's initial environmental examination has been updated with the details of the additional schools and kindergartens and findings of the public consultations. The existing generic environmental management plan is applicable to the additional financing. The project will develop a site-specific environmental management plan for the construction of the nine proposed facilities.</p> <p>Involuntary resettlement (category C). The project will not require any permanent and/or temporary land acquisition or resettlement. Due diligence reviews confirmed (i) that new sites under the additional financing will not trigger land acquisition and resettlement impacts, and (ii) the absence of any legacy issues. The due diligence report will be updated if there are any changes following completion of detailed design and/or if any impacts are triggered during project implementation.</p> <p>Indigenous peoples (category C). The project seeks to sustain access to and the quality of education for all kindergarten and school-age children, regardless of ethnicity. Appropriate measures to enhance inclusiveness and sensitivity, and maximize project benefits for all vulnerable groups, including ethnic groups, have been incorporated into the gender assessment and action plan. The executing agency will manage the environmental and social impacts, and any required capacity support, through the PIU's environmental, social and gender specialists, who are engaged on full time basis. The safeguard monitoring reports will be disclosed semiannually through ADB's website.</p>
Climate change impact	<p>Assessment of climate change impacts resulted in a climate risk categorization of <i>low</i>, as increases in precipitation and temperatures are unlikely to affect the project outputs.^c Following the Joint Multilateral Development Banks Methodological Principles for Assessment of Paris Agreement Alignment of New Operations, the operation has been assessed as aligned with the goals of the Paris Agreement.</p>

ADB = Asian Development Bank, MES = Ministry of Education and Science, O&M = operation and maintenance, PIU = project implementation unit.

^a Government of Mongolia, Ministry of Education and Science. 2023. *Report of Working Group*. Ulaanbaatar.

^b The additional financing will follow ADB's Procurement Guidelines (2015, as amended from time to time) to be consistent with ongoing original project where about 40 packages have already been procured. The bidding documents prepared in accordance with the guidelines have been used under the ongoing project, and prospective bidders are also familiar with existing bidding documents. Given the weak capacity of the proposed implementing

agency, ADB's Procurement Guidelines (2015, as amended from time to time) will be used for the additional financing.

^c Rapid environmental assessment checklist.

Source: Asian Development Bank.

B. Summary of Risks and Mitigating Measures

18. Significant risks and mitigation measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Procurement. The GAE, the proposed implementing agency for the additional financing, has minimal experience (1.5 years) in handling public procurement. The GAE lacks familiarity and experience with ADB or development partner-funded project procurement and regulations.	To support project sustainability the entire PIU team, with full capacity and responsibilities, will be transferred from the Ministry of Education and Science to GAE. The PIU procurement specialists will provide day-to-day support and assistance to GAE and procurement committees regarding ADB's procurement guidelines and procedures. Procurement committee membership will include the PIU procurement specialist, who will guide committee members, and prepare and submit procurement documents to ADB following ADB's procurement rules, guidelines, and procedures. The PIU procurement specialist will undertake capacity building of GAE staff with the support of ADB procurement staff. The ADB project team will closely monitor procurement activities to avoid implementation delays and procedural deviations.
Civil work. Bid evaluation committees are subject to political interference.	The IA and PIU need to ensure bid evaluation committees follow principles of good governance.

ADB = Asian Development Bank, GAE = General Authority of Education, PIU = project implementation unit.

Source: Asian Development Bank.

IV. ASSURANCES

19. The government and MES have assured ADB that implementation of the project shall conform to all applicable ADB requirements, including those concerning anticorruption measures, safeguards, gender equality, procurement, consulting services, financial management, and disbursement, as described in detail in the loan documents.

20. The government and MES have agreed with ADB on certain covenants for the project, which are set forth in the draft loan agreement.

V. RECOMMENDATION

21. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$15,000,000 to Mongolia for the additional financing of the Sustaining Access to and Quality of Education During Economic Difficulties Project, from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 2.0% per year during the grace period and thereafter; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Masatsugu Asakawa
President

1 February 2024