

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

Approved by the Board of Directors on 21 September 2022¹

MONGOLIA

CHOIR – SAINSHAND TRANSMISSION LINE

[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.

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ABBREVIATIONS / CURRENCY CONVERSIONS

ADB	Asian Development Bank
CES	Central Energy System
CHP	Combined Heat and Power Plant
COD	Commercial Operations Date
EDNs	Electricity Distribution Network companies
ERC	Energy Regulatory Commission
E&S	Environmental and Social
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESIA	Environmental and Social Impact Assessment
FTP	Funds Transfer Pricing
GDP	Gross Domestic Product
MNT	Mongolian Tugrik
NDC	National Dispatching Centre
NPTG	National Power Transmission Grid
PIS	Project Implementation Support
RE	Renewable Energy
RES	Renewable Energy Sources
SBM	Single buyer model
SOFR	Secured Overnight Financing Rate
TC	Technical Cooperation
TL	Transmission Line
UB	Ulaanbaatar

CURRENCY CONVERSIONS

USD / EUR	1.018
USD / MNT	3,148

WEIGHT AND MEASURES

km	Kilometer
kV	Kilovolt
CO ₂	Carbon Dioxide
TCO _{2e}	Tonne of Carbon Dioxide equivalent
Megawatt (MW)	1,000 kilowatts (10 ³ kW)
Gigawatt (GW)	1 million kilowatts (10 ⁶ kW)
Megawatt-hour (MWh)	1,000 kilowatt-hours (10 ³ kWh)
Gigawatt-hour (GWh)	1 million kilowatt-hours (10 ⁶ kWh)
Terawatt-hour (TWh)	1 billion kilowatt-hours (10 ⁹ kWh)

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Mongolia (the “Borrower”), 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 70.4 million (EUR 69.2 million equivalent) and an EBRD Shareholder Special Fund (the “SSF”) co-investment grant [REDACTED]. The loan will be split into two tranches – up to USD 56.6 million (EUR 55.6 million equivalent) committed and up to USD 13.8 million (EUR 13.6 million equivalent) uncommitted.

The facility will finance construction of the 220km Choir – Sainshand high voltage transmission line, the new 220/110/35 kV substation at Sainshand and extension of the existing 220/110/35 kV substation at Choir (the “Project”). The Project will increase the grid flexibility and stability in the south east of Mongolia and will facilitate absorption of renewable energy from the existing and new wind and solar PV plants. The Project is expected to catalyse renewable energy developments in the fossil fuel dominated Mongolia. The Project is expected to be co-financed by the EU Asian and Pacific Investment Facility (“APIF”) investment grant [REDACTED].

The expected transition impact of the project is two-fold: 1) Green: the operation is classified as 100% GET. The Project is expected to achieve CO2 emissions savings in the amount of over 140,000 tCO2/year through reduction of the electricity transmission losses and increased absorption of renewable energy from the nearby renewable power plants. 2) Inclusive: the Project will support increased access to market-relevant skills and employment opportunities for young electrical engineers, via a new training programme that will allow young women and men to gain accredited energy efficiency skills.

TC support for this operation has been provided by the Shareholder Special Fund (Environmental and Social Due Diligence and National Environmental Impact Assessment) and the Government of Japan.

I am satisfied that the operation is consistent with the Bank’s Strategy for Mongolia, the Energy Sector Strategy 2019-2023, the Green Economy Transition Approach, the Bank’s Equality of Opportunity Strategy 2021-2025, the Strategy for the Promotion of Gender Equality and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan and the SSF co-investment grant substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

MONGOLIA - CHOIR – SAINSHAND TRANSMISSION LINE - DTM 51505	
Transaction / Board Decision	Board approval ² is sought for a sovereign loan of up to USD 70.4 million (EUR 69.2 million equivalent) and an EBRD Shareholder Special Fund (the “SSF”) co-investment grant [REDACTED] in favour of Mongolia (the “Borrower”) to finance construction of the 220km Choir – Sainshand high voltage transmission line, the new 220/110/35 kV substation at Sainshand and extension of the existing 220/110/35 kV substation at Choir (the “Project”). The Project is expected to be co-financed by the EU Asian and Pacific Investment Facility (“APIF”) grant [REDACTED]. The loan will be split into two tranches: (i) Tranche 1 of up to USD 56.6 million (EUR 55.6 million equivalent) committed; and (ii) Tranche 2 of up to USD 13.8 million (EUR 13.6 million equivalent) uncommitted. Approval of Tranche 2 will be delegated to Management.
Client	The facility consists of a sovereign loan to Mongolia. The Project will be implemented by a Project Implementation Unit (“PIU”) to be established by the Government with the Ministry of Energy leading the preparation activities until the PIU is created.
Main Elements of the Proposal	<p>Transition impact: Green. The Project is expected to reduce power transmission losses, improve energy efficiency of the grid and improve absorption from renewable energy plants with an overall CO2 emission saving in excess of 140,000 tCO2e/yr (of which 27,000 in scope 2). The Project is underpinned by the Bank-supported Grid Strengthening to Support Renewables TC and will facilitate development of renewable energy in Mongolia. Inclusion. The Project will support improvements in the employability of youth by introducing a new, replicable and nationally accredited training programme for young electrical engineers, in collaboration with a local technical college.</p> <p>Additionality: The Bank will provide long-term financing, which is currently not available from local commercial banks. The Bank will support the client in achieving higher standards through its conditionalities (e.g. PP&R and ESAP).</p> <p>Sound banking: The Project is structured as a sovereign loan.</p>
Key Risks	<p>Implementation risk. The risk is associated with the [REDACTED] local implementation capacity, supply constraints due to Covid and geopolitical disruptions and will be mitigated by the involvement of the Project Implementation Support and Supervision consultants.</p> <p>Sovereign risk. Prior to the pandemic, public debt of Mongolia was on a downward path (down to 64% at Dec-19 compared to 81.6% at Dec-17), but rose to 81.5% of GDP after the pandemic. The GDP is expected to grow by 3.5% and 7.0% in 2022 and 2023, respectively. Substantial part of the public debt is concessional. The public debt is expected to decline in the medium term due to the rebound in economic activity and planned fiscal consolidation. In July 2022, Moody’s and S&P affirmed Mongolia’s rating at B3/stable and B/stable outlook and Fitch’s rating stands at B/stable.</p>
Strategic Fit Summary	The Project is consistent with the Energy Sector Strategy 2019-2023 and the Green Economy Transition Approach, aimed at supporting cleaner distribution of energy through greater energy and resource efficiency, through CO2 emissions reduction and integration of renewable energy sources into the grid. The Project is also in line with the Bank’s Strategy for Mongolia, the Bank’s Equality of Opportunity Strategy 2021-2025, the Strategy for the Promotion of Gender Equality and with the Agreement Establishing the Bank.

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	<p>The transaction entails a sovereign loan to Mongolia in the amount of up to USD 70.4 million (EUR 69.2 million equivalent) and an EBRD Shareholder Special Fund (the “SSF”) investment grant [REDACTED] to finance construction of the 220 km Choir - Sainshand double circuit 220kV transmission line, the new 220/110/35 kV substation at Sainshand and extension of the existing 220/110/35 kV substation at Choir (the “Project”). The loan will be split into two tranches: (i) Tranche 1 of up to USD 56.6 million (EUR 55.6 million equivalent) committed; and (ii) Tranche 2 of up to USD 13.8 million (EUR 13.6 million equivalent) uncommitted. Approval of Tranche 2 will be delegated to Management.</p> <p>The Project is expected to be co-financed by the EU Asian and Pacific Investment Facility (“APIF”) grant [REDACTED]. The Project will be implemented by a Project Implementation Unit (“PIU”) to be established by the Government of Mongolia.</p>
Existing Exposure	<p><i>Sovereign – portfolio: EUR 147.6 million (operating assets: EUR 32.3 million):</i></p> <ul style="list-style-type: none"> - OPID 46581 Ulaanbaatar Solid Waste Modernisation Project – USD 9.7 million (disbursing); - OPID 49511 Ulaanbaatar District Heating Project – USD 10.0 million (signed); - OPID 50533 Erdenet Climate Resilience – USD 7.0 million (signed); - OPID 50766 Ulaanbaatar Darkhan Road – USD 137.0 million (disbursing). <p>[REDACTED]</p>
Maturity / Exit / Repayment	Up to 18 year tenor [REDACTED].
Potential AMI eligible financing	None
Use of Proceeds	<p>The proceeds of the loan and investment grant funds will be used to finance (i) construction of the 220 km Choir - Sainshand double circuit 220kV transmission line and the new 220/110/35 kV substation at Sainshand, as well as extension of the existing 220/110/35 kV substation at Choir [REDACTED].</p> <p>The use of proceeds will be monitored through the application of the Bank’s PP&R, via conditions precedent to disbursement, review of the progress reports and monitoring visits.</p>
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> - Borrower: Mongolia (represented by the Ministry of Finance) - Executing Agency: Ministry of Energy of Mongolia leading the preparation activities until a dedicated PIU is created by the Government of Mongolia.
Conditions to subscription / disbursement	<p>Conditions to effectiveness:</p> <ul style="list-style-type: none"> - Execution of the Loan Agreement and Grant Agreement - Establishment of the PIU, acceptable to the Bank - Other standard EBRD conditions

	- [REDACTED]
Key Covenants	<ul style="list-style-type: none"> - Environmental and social compliance through the ESAP - Compliance with the Bank's Procurement Policies and Rules - Other standard EBRD covenants
Security / Guarantees	Sovereign loan
Other material agreements	[REDACTED]
Associated Donor Funded TC and co-investment grants/concessional finance	<p>A. Technical Cooperation (TC)</p> <p><i>Pre-signing TCs:</i></p> <ul style="list-style-type: none"> • TC1: Update of the Feasibility Study and Technical Review [REDACTED]; funded by Japan through Japan-EBRD cooperation Fund. • TC2: Environmental and Social Due Diligence [REDACTED], funded by the SSF Workplan 2019-2020. • TC3: National Environmental Impact Assessment [REDACTED], funded by the SSF Workplan 2019-2020. <p><i>Post-signing TCs:</i></p> <ul style="list-style-type: none"> • TC4: Supervision Services [REDACTED], expected to be co-financed by the Sustainable Infrastructure Fund ("SIF") and an international donor or the SSF. • TC5: Training Programme for young engineers as part of the gender and inclusion initiative [REDACTED], expected to be funded by Japan through Japan-EBRD cooperation Fund. <p>Cost-sharing: The Borrower will provide parallel contribution to the Project by paying for the services of the Project Implementation Support consultants [REDACTED] from the EBRD loan proceeds.</p> <p>B. Co-investment grants / Concessional Finance (Non-TC)</p> <p>The Project is expected to be co-financed by the SSF [REDACTED].</p>

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

The Mongolian economy is in [REDACTED] need of investments in its power sector. The country relies on costly electricity imports as the existing domestic generation capacity cannot currently meet increasing power demand. The power generation sector in Mongolia is dominated by coal, which is typically burnt in old, highly-polluting combined heat and power plants located close to urban centres. [REDACTED].

A key element in Mongolia's strategy to tackle the challenges of establishing a secure power supply to meet the growing power demand while reducing the environmental impact is to exploit the country's enormous renewable energy potential. Deployment of renewable energy sources depends on strengthening of the Mongolian power grid into a reliable and efficient transmission network. The power sector is expected to start reducing its dependence on coal with majority of new demand served by renewables: over the last 5 years, 69% of the total newly built power generation capacity connected to the grid was already either wind (105 MW) or solar (90 MW). The Project will increase the grid transfer capacity facilitating operations of the existing renewable plants without curtailments and will allow connection of new renewable capacity to the grid. The Project is expected to reduce dependence on energy imports and facilitate decarbonisation of the fossil-fuel dominated energy sector.

The Mongolian transmission and distribution networks suffer from [REDACTED] periods of underinvestment. The transmission network is old and inefficient with high transmission losses, voltage fluctuations and limited capacity to absorb additional power supply, especially from intermittent renewables. The current situation negatively affects the quality of electricity supply to the Mongolian citizens. According to the statistics published by the Energy Regulatory Commission ("ERC"), in 2021, System Average Interruption Duration Index ("SAIDI") for the Central Energy System ("CES") was 16 hours and the System Average Interruption Frequency Index ("SAIFI") was 7. Compared to the similar countries from the East Asia and Pacific region median, the CES SAIDI and SAIFI are 4.1 times and 3.5 times higher. The Project would enable access to reliable, affordable and cleaner electricity in the Choir and Sainshand regions. It is expected to reduce blackouts and ensure well-functioning public services for the population - dramatically improving the quality of local people's life.

The existing Choir – Sainshand 110kV transmission line in the south eastern part of the country requires [REDACTED] upgrade in order to improve the capacity of the national grid to absorb intermittent renewables. The Project will finance construction of the parallel 220 km Choir - Sainshand double circuit 220kV transmission line, the new 220/110/35 kV substation in the Sainshand town and extend the existing 220/110/35 kV substation in the Choir town. The Project is expected to increase supply of electricity to the grid from the Bank-financed 55MW Sainshand wind farm and 30MW solar plant located near Sainshand, as well as to enable connection of additional renewable capacity near Choir.

The Project is the first among the priority measures proposed by the TC study that was completed by the Bank in 2019 regarding the grid strengthening required to support renewables in Mongolia. The Project will be the first project to be financed by the Bank in the electricity transmission sector of Mongolia, and will be implemented under the Framework Agreement (“FA”) the Bank signed with the Mongolian Government for potential investments in the infrastructure sector in April, 2019.

The Project is expected to result in significant climate and environmental benefits through a stronger grid network which enables increased renewable energy absorption from the existing wind and solar PV plants in Sainshand and connection of new renewable energy sources in the future. The Project will promote energy conservation by reducing technical losses by at least 51%, 26,900 MWh annually, corresponding to annual savings of 27,000 tons of CO₂ and avoid renewable energy curtailments by 93,000 MWh per year corresponding to annual savings of 113,000 tons of CO₂. The Project is classified as 100% GET.

The Project will also help increase young people’s access to market-relevant skills and employment opportunities, in line with the objectives set by the Government in its National Long-Term Development Policy Vision by 2050. The National Power Transmission Grid company (“NPTG”), the state owned electricity transmission company operating in the Central Energy System (“CES”), will develop and implement a new accredited training programme in partnership with a local technical college to provide young female and male electrical engineers with the skills needed to succeed in the energy sector. [REDACTED].

The Project is in line with the Energy Sector Strategy, the Green Economy Transition approach aimed at supporting cleaner production and distribution of energy through greater energy and resource efficiency. The Project is aligned with the Paris Agreement, helping strengthen the national electricity grid and unlock the potential of renewables. The Project is also in line with the Country Strategy for Mongolia; addresses the objectives of the Bank’s Equality of Opportunity Strategy 2021-2025; and the Strategy for the Promotion of Gender Equality, by introducing effective and gender responsive work-based learning models and standards, thereby contributing to the promotion of equal opportunities in energy operations. The Project will assist in delivering reliable and stable power enabling economic recovery from the pandemic. The Project will also increase the grid transfer capacity allowing efficiency and increased absorption of renewable energy produced domestically into the grid which is expected to reduce dependence on energy imports.

1.2 TRANSITION IMPACT

The tables below set out the TI Objectives and details of the project.

Primary Quality: Green

Obj. No.	Objective	Details
1.1	<i>The percentage of EBRD use of proceeds allocated to the project that qualifies as GET is 50% or higher.</i>	100% of EBRD use of proceeds will be allocated to construction of the new double circuit 220kV overhead Sainshand – Choir transmission line and the new 220/110/35kV Sainshand substation as well as extension of the existing Choir substation. No new coal-fired power plants are expected to be built in the proximity of the Project or connected to the transmission line, and the Project is aligned with the EU Taxonomy criteria for substantial contribution to climate mitigation which is considered as 100% GET.
1.2	<i>The environmental impact of the project is expected to meet or exceed one or more of the quantitative physical scale thresholds as outlined in the GET TI assessment methodology.</i>	The Project will result in reducing the transmission losses [REDACTED].

Secondary Quality: Inclusive

Obj. No.	Objective	Details
2.1	<i>The project will introduce a new, replicable and accredited training programme improving skills for [REDACTED] people from the inclusion target group in partnership with (local) vocational schools or universities.</i>	The Project will enhance access to market-relevant skills and employment opportunities for young energy specialists. The National Power Transmission Grid (NPTG), state owned electricity transmission company, will develop and introduce a new nationally accredited training programme (i.e. in line with the orders of the Ministry of Labour and Social Protection) in partnership with the School of Energy of the Mongolian University of Science and Technology. The programme will equip [REDACTED] young people with higher skill levels on new technologies for electrical engineers (including energy efficiency skills, electricity savings, power system protection, remote controls, engineering charge-ordered materials, and IT skills).

Risks to TI delivery:

The risks to achieving the transition impact mainly relate to the implementation risks of the Project. The risks are mitigated by the involvement of the Project Implementation Support consultants. Successful implementation of the training programmes may be at risk in case the local educational institutions lack the commitment and/or resources.

1.3 ADDITIONALITY

Identified triggers	Description
<i>No triggers identified.</i>	<i>n/a</i>

Additionality sources	Description of additionality sources
<p>Financing structure</p> <ul style="list-style-type: none"> – EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions, [REDACTED]. Such financing is necessary to structure the project. – EBRD offers a tenor, which is longer than available to the client in the market on reasonable terms and conditions. 	<p>Long-term funding from commercial sources is not available for projects in the power sector. There are no sources of long-term financing that match the lifetime of the power assets [REDACTED].</p> <p>EBRD financing comes at the time of severe liquidity constraints caused by economic disruption as the result of COVID-19 outbreak and geopolitical situation. The financing will help the Government implement the project of a high priority on its agenda.</p>
<p>Risk mitigation</p> <p>EBRD helps the client to mitigate carbon transition risks and take climate action, such as to move along a low carbon transition pathway.</p>	<p>The Project will contribute to a much-needed enhancement of the grid capacity of the country, as well as will facilitate operations of the existing renewable plants without being curtailed and will allow connection of new renewable capacity into the grid.</p>
<p>Policy, sector, institutional, or regulatory change</p> <p>EBRD’s involvement in a project is considered additional when it is designed to trigger a change in the policy, sector, institutional or regulatory framework, or enhance practices at the sector or country level.</p>	<p>The Project is an outcome of the Bank-supported Grid Strengthening to Support Renewables TC completed to assess the condition of the Mongolian electricity network and recommend an action plan for investments into the grid.</p>
<p>Standard-setting: helping projects and clients achieve higher standards:</p> <ul style="list-style-type: none"> – Client seeks/makes use of EBRD expertise on best international procurement standards. – Client seeks/makes use of EBRD expertise on higher environmental standards, above ‘business as usual’ (e.g. adoption of emissions standards, climate-related ISO standards etc.). – Client seeks/makes use of EBRD expertise on higher inclusion, gender standards and/or equal opportunities action plans. 	<p>Mongolian authorities seek EBRD’s expertise on the best international procurement standards. The on-going procurement will follow the EBRD’s procurement policies and rules (“PP&R”) including EBRD Client e-Procurement Platform (“ECEPP”). Through the Project, the EBRD will introduce high standards beyond local requirements and practices on the procurement and ESAP that are still innovative for the country.</p> <p>To contribute towards enhancing the role of women in the traditionally male dominated energy sector, gender considerations will be integrated throughout the training programme to be introduced. The curriculum will be designed with a gender lens and the programme will have a target of at least a third of female participants.</p>
<p>Knowledge, innovation, and capacity building</p>	<p>The Bank will support the Borrower in selection of the Project Implementation</p>

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.	Support ("PIS") consultant, who will work closely with the PIU to assist with tendering, implementation of the ESAP, reporting and with other Project related procedures.
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1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Sovereign risk	High / High	<p>Mongolia remains vulnerable to risks arising from the pandemic, inflationary pressures, international commodity price volatility and fiscal policy. The public debt stood at 81.5% at the end of 2021.</p> <p><i>Mitigating factors:</i> In November 2021, the IMF concluded the Article IV consultation with Mongolia. IMF concluded that the Mongolian economy is rebounding from recession, despite a lingering pandemic. The recovery is largely export-led, supported by the global recovery. It is projected that in 2023, Mongolia will remain poised for an export-led growth, accelerating to 7%. As the pandemic is largely controlled, domestic activity is expected to gradually normalize. The public debt is predicted to decline over the next 4 years, on the back of a rebound in economic activity from increased exports, a significant share of concessional debt, and planned fiscal consolidation, helped by economic recovery and expiration of many pandemic support measures. In July 2022, Moody's and S&P affirmed Mongolia's rating at B3/stable and B/stable outlook and Fitch's rating stands at B/stable.</p>
Implementation and procurement risk	High / Medium	<p>Project implementation may incur cost overruns and/or completion delays, while procurement risks are high as PIU is not familiar with the Bank's Procurement Policies and Rules.</p> <p><i>Mitigating factors:</i> 1) The Borrower has earlier experience with the Bank in other sectors under the infrastructure projects and with other IFIs, including most recently with KfW and ADB; 2) The feasibility study has been reviewed and updated by an international consultant; 3) the Borrower will establish a PIU to implement the Project; 4) the PIU will be assisted by the consultants to be selected in accordance with the Bank's procurement rules; 5) Works, goods and services will be procured in line with the EBRD's Procurement Policy and Rules using EBRD Procurement Platform ECEPP and all key procurement documentation will be subject to a prior review by the Bank.</p>
Foreign exchange risk	Medium / Medium	<p>The devaluation of the Tugrek could adversely affect the ability of the Borrower to repay the hard currency loan.</p> <p><i>Mitigating factors:</i> The Mongolian economy is rebounding from its deepest recession in a decade, despite a lingering pandemic. The recovery is largely export-led, supported by the global recovery. The post-pandemic GDP is projected to grow by 3.5% in 2022 and 7% in 2023.</p>

2. MEASURING / MONITORING SUCCESS

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
- On-time project implementation - Maintaining appropriate environmental standards	- Completion according to the timeline and within the budget - Successful and timely implementation of the ESAP	[REDACTED]

Primary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	TC
1.1	New or updated GET technology or product leading to energy efficiency introduced	Physical capacity of the client extended or modernised: length of the transmission line (220 km)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Primary energy saved	GJ/year (Equivalent to the reduction in transmission losses of 26.9 GWh/y)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	CO2 emissions savings	Tonnes/year (Equivalent to the savings in transmission losses – scope 2)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: Inclusive

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	TC
2.1	Tailored training programme developed and implemented	A new, replicable and nationally accredited training programme to be developed and implemented for young electrical engineers, in collaboration with a local technical college.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Number of youth earning an accredited certification and enhancing their skills as a result of training	The programme will equip [REDACTED] young people with higher skill levels on new technologies for electrical engineers.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Additional indicators

Indicator Type	Monitoring indicator	Details	Baseline	Target	Due date	TC
Gender SMART Tag	Number of female youth enhancing their skills as a result of training	The programme will equip [REDACTED] women with higher skill levels on new technologies for electrical engineers.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

This will be the Bank’s first transmission project and sixth sovereign project in Mongolia. The Project is aligned with the country’s priorities and was approved by the Government of Mongolia to be implemented under a [REDACTED] Framework Agreement (the “FA”) between the EBRD and Mongolia, signed on 18 September 2019 [REDACTED].

The Mongolian economy has been improving on the back of recovered commodity prices since 2017. Prior to the Covid-19 outbreak, the macro-economic policies and structural reforms under the IMF’s Extended Fund Facility program significantly strengthened the economy: public debt was firmly on a downward path (down to 64% at Dec-19 compared to 81.6% at Dec-17) and the foreign reserves nearly tripled since the beginning of the program. However, due to the severe and widespread economic impact of the COVID-19 pandemic, the Mongolian economy contracted by 4.6% in 2020 and slightly expanded by 1.4% in 2021. The public debt rose to 75.6% of GDP at the end of 2020 and further increased to 81.5% at the end of 2021. [REDACTED].

The World Bank projects the Mongolian public debt to increase to 83.6% of the GDP by the end of 2022 and reach 81.7% and 80% in 2023 and 2024, respectively. The public debt is predicted to decline in the medium term, due to the rebound in economic activity from increased exports, the significant share of concessional debt, and planned fiscal consolidation, helped by Mongolia’s export-led economic recovery and the expiration of many pandemic support measures. The GDP is projected to grow by 3.5% in 2022 and by 7% in 2023. The economic growth is expected to stabilize at 5% in 2024-2031, as the underground mining phase of Oyu Tolgoi copper-gold mine, an important contributor to the economy, becomes operational during second half of 2023. In July 2022, S&P and Moody’s reaffirmed the rating of Mongolia at B/stable B3/stable, and Fitch’s rating stands at B/stable.

3.2 EXECUTING AGENCY

The Project will be implemented by a Project Implementation Unit (“PIU”) to be established by the Government in close coordination with the Ministry of Energy of

Mongolia (the “MoE”). The MoE is leading the Project’s preparation activities until the PIU is established. As per the Mongolia regulations, the PIU can be established after the loan is signed. [REDACTED].

4. MARKET CONTEXT

The Mongolian energy sector is characterized by [REDACTED] carbon intensity. While the sector is functionally and legally unbundled, majority of assets remain in state ownership. The state infrastructure, both generation assets and heat and electricity distribution networks, is old, polluting and inefficient.

The small number of consumers and Mongolia's geographical isolation mean the power system is small (approx. 1.5GW of total installed capacity). Extreme winter temperatures result in a high level of reliance on district heating, and hence electricity production has been principally by coal-fired CHP plants (there is no gas available) which account for 91% of total power production and the remainder 9% is produced by wind, solar and small hydro generators. The installed capacity of the renewable energy reached 271.3MW (18.3%) and consists of three wind farms (155MW), six solar PV (90MW) and small hydro capacity.

Over the last 5 years, the renewable projects were the main source of newly built generation as they represent 69% of total new capacity. The existing wind and solar PV plants were implemented under the feed-in-tariff (FiT) embedded in the 2007 Renewable Energy law. Due to the old and inefficient transmission infrastructure, low demand during the night-time and affordability issues, the renewable energy projects in Mongolia have been subject to curtailment. The Project is expected to increase capacity of the electricity network to absorb more renewable energy which would in turn result in a lower curtailment rate.

Due to Mongolia's large size but sparse population there is no country-wide transmission system. There is one main grid centred on UB and extending southwards into the Gobi desert, alongside some smaller independent grids serving other areas of the country. There are 1,000 km of 220kV lines in the Central Energy System (“CES”) and 11,000 km of lower voltage lines; most of the transmission installations were installed in 1970s and 1980s. The power system is inflexible, and has only one cross-border interconnection on which it depends to meet daytime and peak demand.

National Power Transmission Grid company (“NPTG”) transmits electricity generated by 16 plants (coal and renewable) to 17 electricity distribution companies within the CES. Two other regional companies transmit electricity in smaller Western and Eastern regions. The National Dispatching Centre (“NDC”) is responsible for managing the dispatch of power plants to synchronize demand for electricity and heat with supply. The NDC also acts as a single off-taker for power generation, transmission and distribution companies in the Central Energy System (“CES”). The Energy Regulatory Commission (“ERC”) manages the single buyer model for all energy systems. It determines a transmission tariff for NPTG and calculates NPTG’s coefficient for revenue entitlement from the zero balance account on a quarterly basis together with other special license holders, including generation plants.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITIES

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorized A. The construction of high voltage overhead transmission line is (OHTL) is associated with a number of potential E&S impacts, which were assessed through a comprehensive Environmental and Social Due Diligence (ESDD). An independent consultant was retained by EBRD to perform a full Environmental and Social Impact Assessment (ESIA) in line with the EBRD's ESP and EU EIA Directive, followed by a number of the public consultations. The Project was subject to the National Environmental Impact Assessment (DEIA), and received the required regulatory approval by the Mongolian Ministry of Environment and Tourism in July 2021. The ESDD confirmed that the Project is structured to comply with the Bank's Performance Requirements (PRs). The ESIA and supplementary package was disclosed on the EBRD's and Client's web-site on June 29, 2021 for 120 days' period. No comments or concerns have been received since.

The Project includes construction of 220 km double circuit 220 kV overhead transmission line between Choir and Sainshand; the construction of a new 220/110/35 kV substation in Sainshand and extension of 220/110/35 kV Choir substation. The Project will require permanent land take for the construction of the new substation at Sainshand and for construction of the tower foundations for the OHTL along the Project route.

The line route, has been selected to limit impacts and goes primarily through a mainly unpopulated area with a small section traversing agricultural lands and has been selected based on the analysis of three alternatives. No resettlement will be required for the Project and limited economic displacement impacts and livelihood restoration activities will be addressed based on the Land Acquisition and Livelihood Restoration Action Plan developed for the Project. The site for the Sainshand substation is currently unused and there are no businesses or residential properties and therefore the substation will not have an impact on existing land uses or result in any physical or economic displacement. The substation at Choir is already existing and is not associated with physical or economic displacement. The OHTL route between Choir and Sainshand substations passes predominately in open countryside, across pastureland. The land across which the OHTL passes is, effectively, all State-owned land. There are no herder household structures, temporary or permanent. No physical displacement of winter

camps is therefore anticipated along the OHTL route. Construction will result in a temporary loss of access to pastureland within the temporary working footprint of the Project OHTL route, which could affect herders. If any physical or economic displacement will occur, a Resettlement Action Plan and/or Livelihood Restoration Plan will be prepared and implemented, based on the Land Acquisition and Livelihood Restoration Framework developed for the Project and disclosed alongside ESIA.

Biodiversity aspects of the line construction and operation were assessed by independent experts, with particular focus on avifauna. Two seasons of bird surveys were undertaken to capture spring-autumn 2021 migratory periods. The route does not traverse any internationally protected area, with the closest IBA being at 10 km from the line. Biodiversity surveys indicated that vegetation coverage was generally low and no International Union of Conservation of Nature (IUCN) Red Listed threatened plants species were observed however, two plant species listed as threatened in the Mongolian Red List, were recorded. The majority of the bird species recorded during the spring bird survey have low conservation priorities, however, two threatened category birds were identified. For those sections where ornithological assessment established the potential risks of bird collision with the line, the protection measures (such as bird markers and diverters) were proposed and will be incorporated into the final design. The periodic bird monitoring will continue post construction and, if required, additional measures will be implemented.

The main E&S risk associated with the construction and installation of the OHL are associated mainly with worker Occupational Health and Safety, contractor and supply chain management and ensuring the technology and designs meet good industry practices and best available techniques.

The physical impacts, notably on human receptors, such as noise, dust, electromagnetic fields (EMF), visual were found to be negligible due to line location in the mainly uninhabited area and away from sensitive receptor.

Based on the ESDD, an Environmental and Social Action Plan (ESAP) has been developed to structure the Project in line with the EBRD's PRs and address institutional strengthening issues as required. The ESAP includes, inter alia, enhancement of the corporate Environmental, Health & Safety and Social Management Systems, installation of the bird protection devices and seasonal bird monitoring, supply chain management and construction safety, implementation of the Stakeholder Engagement and grievance tools, implementation of the Land Acquisition procedures compliant with Bank's policy and others.

As part of the ESIA disclosure package, Non-Technical Summary (NTS) in English/Mongolian, Stakeholders Engagement Plan (SEP), Environmental and Social Management and Monitoring Plan (ESMMP) have been developed and published <https://www.ebrd.com/work-with-us/projects/esia/choir-sains-hand-transmission-line.html>

The Bank will monitor the Project implementation and assist with institutional capacity building.

6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was undertaken on key project entities - Ministry of Energy, Ministry of Finance and National Power Transmission Grid, and key individuals 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] The Project will be subject to the Bank's PP&R and a PIU will be established to support implementation.

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

Concessional Finance

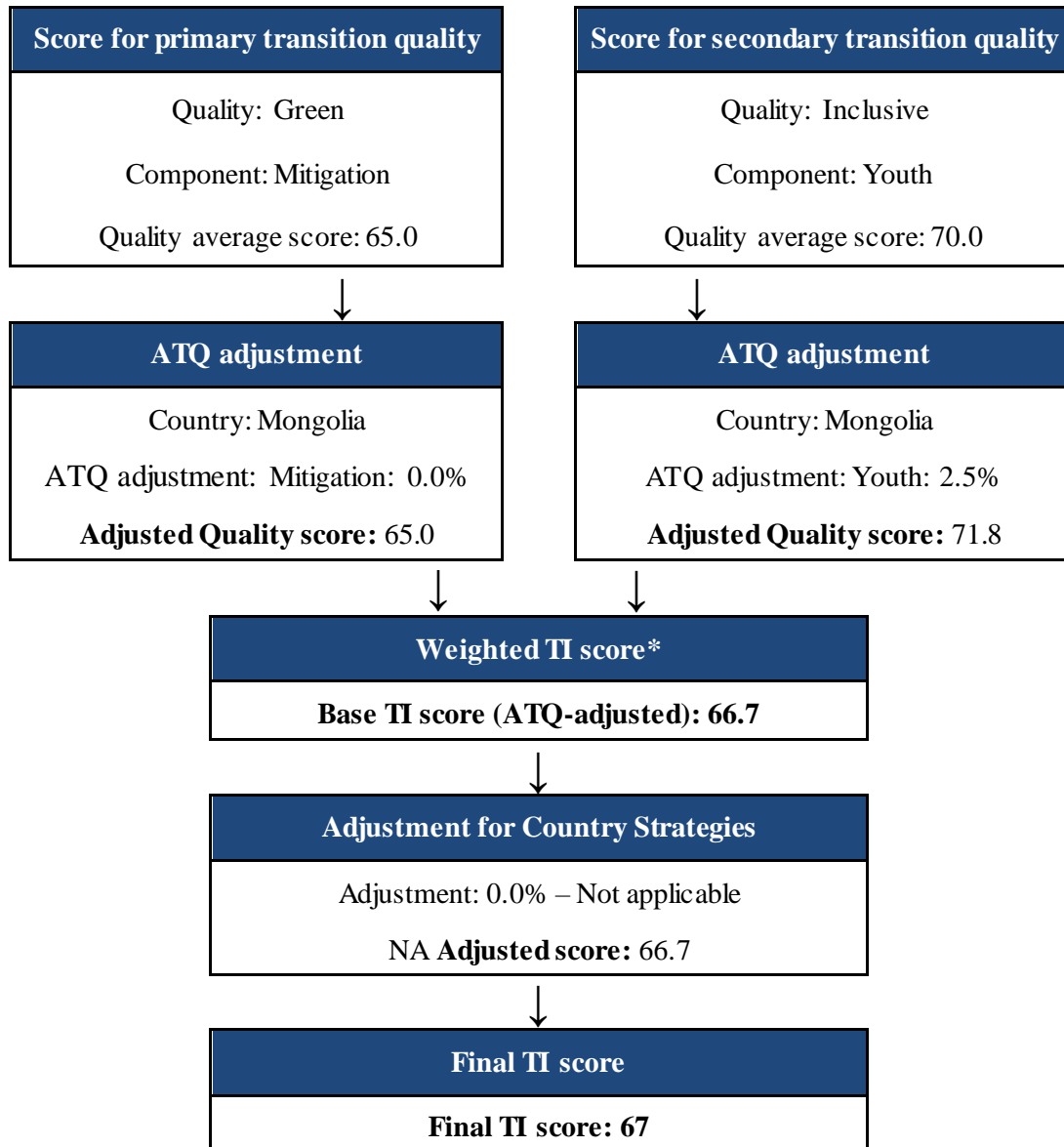
The Project envisages capital grant[s] from the SSF [REDACTED] and by the APIF [REDACTED]. The IMF strongly recommends concessional funding for Mongolia, due to the vulnerable fiscal and macro situation of the country, which has been aggravated by the COVID-19 pandemic. The significant share of concessional finance is identified by IMF as one of the main risk mitigation factors for the country's economic recovery. Several key donors, including the World Bank and ADB, provide significant grant and concessional funding in the country.

The costs required to implement the Project could result in aggravated affordability constraints if fully passed through to consumers. By receiving concessional funding for the Choir-Sainshand transmission line project, the costs to be passed through to end consumers are reduced, thus alleviating potential negative social impacts arising from affordability concerns for the poorest households of Mongolia.

ANNEXES TO OPERATION REPORT

ANNEX 1	TRANSITION IMPACT SCORING CHART
ANNEX 2	PROJECT IMPLEMENTATION
ANNEX 3	GREEN ASSESSMENTS
ANNEX 4	CO-INVESTMENT GRANT SSF FICHE

ANNEX 1 – TRANSITION IMPACT SCORING CHART



*The Primary Quality score is weighted 75% for the calculation of the Base TI Score. The Secondary Quality is weighted 25%.

ANNEX 2 – PROJECT IMPLEMENTATION

Procurement classification – *Public sovereign*

Project risk assessment:

[REDACTED]. The preliminary capacity assessment of the current counterparts in the Ministry of Energy was conducted [REDACTED]. The Government of Mongolia has earlier experience with a number of IFIs (most recently KfW and ADB). [REDACTED]. Project implementation workshop was delivered by the PIA on 9th June 2022 in Ulaanbaatar with ca 30 participants from the Ministry of Energy, Ministry of Finance, Ministry of Economic Development, Energy Development Center, Public Procurement Agency and National Power Transmission Grid. The EBRD PP&R was presented and the Project Delivery Strategy was discussed in detail, which is summarised below.

Contracts risk assessment

“Moderate”

The Project contracts envisage the construction of ca 220 km Choir - Sainshand double circuit 220kV overhead transmission line, the new 220/110/35 kV substation at Sainshand and expansion of 220/110/35 kV substation at Choir. These are moderate risk contracts. [REDACTED].

Project implementation arrangements:

The Government will establish a Project Implementation Unit (“PIU”) responsible to implement the Project. In order to mitigate lack of the client’s capacity to implement the Project, qualified Project Implementation Support Consultants will support the PIU with the project preparation and implementation, including works supervision, monitoring and loan reporting. However, the PIU can only be established as per the Ministry of Finance regulations after the loan is signed which prevents advance procurement. Therefore, it was agreed that the MoE will undertake the interim project management and will be leading all Project’s procurement activities until the PIU is established. The MoE’s appointed representative with assistance of an individual procurement consultant will conduct the selection of the PIS consultant and will launch prequalification for works tender.

Procurement arrangements:

Procurement of all works, goods and services, including consultancy services for the Project will follow Open Competitive procedure by using ECEPP in accordance with the requirements of the EBRD PP&R, 2022, for public sector operations. The Bank’s appropriate Standard Procurement Documentation will be used.

The detailed design has been prepared by the local design institute on request of the Ministry of Energy. It will be reviewed by the PIS consultant in order to establish whether it is acceptable for the use as the Employer’s design for the purpose of the Red Book FIDIC while not unnecessarily restricting the completion. At the moment, Red Book FIDIC as General Conditions of Contracts (“GCC”) and a single stage tendering are envisaged for all works.

All loan and grant, if any, financed client-led contracts will be procured using ECEPP and subject to prior review by the Bank. [REDACTED].

ANNEX 3 – GREEN ASSESSMENTS

Introduction

The Project has been assessed for alignment with the mitigation and adaptation goals of Paris Agreement. ESD performed a screening of the Project and concluded that it does not face any potentially material physical climate risks. Sector and the project type is included in the 'aligned list'.

The Project is exempt from the Climate Risk assessment, as the counterparty is a sovereign.

Paris alignment assessment

General screening of alignment with the mitigation goals of Paris Agreement

- The project/economic activity is included in the 'aligned list'.

Alignment with the adaptation goals of Paris Agreement

- Evaluation of the physical climate risk and vulnerability context: there are no potentially material physical climate risks that are significant at the project location or which may affect the business operation of the counterparty.
- Definition of climate resilience measures: N/A – no material physical climate risks identified.
- Appraisal of broader climate resilience context: the Project is one of the Government's priority investment projects and is included in the country's Energy sector policy 2015-2030. Refer to the Strategic Context section for further details.

GET attribution

100% GET attribution

The Project is expected to result in significant environmental benefits as it will reduce power transmission loss and improve energy efficiency with the total estimated reduction in CO₂ emissions of ca. 140,000 tCO₂/year. The Project is expected to reduce the transmission losses of the line by 26,900 MWh/year on average (from 52,600 MWh/year to 25,700 MWh/year), which corresponds to the annual savings of 27,000 tons of CO₂ in scope 2 emission. The Project also is expected to reduce the curtailment of renewable energy sources by 93,000 MWh per year corresponding to annual savings of 113,000 tons of CO₂ in scope 3 emission.

The Project is aligned with the EU Taxonomy criteria for substantial contribution to climate mitigation which is considered as 100% GET.

Green Finance Project Monitoring Plan

The Project is expected to reduce the transmission losses by 26,900 MWh/year. This will be monitored on an annual basis starting from one year after the completion of the construction. The reduction in the transmission losses will be monitored via the project reporting.

ANNEX 4 – CO-INVESTMENT GRANT SSF FICHE
EBRD SHAREHOLDER SPECIAL FUND
PROPOSAL FOR CO-INVESTMENT GRANT ALLOCATION

[REDACTED]