Mongolia: Readiness for Climate Finance

An assessment and route map

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

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Program-
Biodiversity and
Adaptation of Key Forest Ecosystems to Climate Change

Published by:
Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH

GIZ-Program
„Biodiversity and Adaptation of Key Forest Ecosystems to Climate Change“

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November 2012

Acknowledgements

I would like to thank Mr Klaus Schmidt-Corsitto and his team for making my visit very memorable and interesting. Special thanks are due to Ms Gereltuya Puntsagdash for her support during the interviews and both Ms Battsetseg and Ms Saran Selenge for their help too.

It was a great pleasure to meet with many key decision-makers in the country particularly Dr Dagvadorj Damdin, Special Envoy for Climate Change. However, the opinions expressed in this report are my own. It should also be noted that they are derived from assessment during a very short visit and brief period of analysis and writing thereafter.

Acronyms

ADB	Asian Development Bank
AF	Adaptation Fund
CCCO	Climate Change Coordination Office
CDM	Clean Development Mechanism
CIF	Climate Investment Fund
COP	Conference of the Parties
CFR	Climate Finance Readiness
CPEIR	Climate Public Expenditure and Institutional Review
DNA	Designated National Authority
EC	European Commission
FSF	Fast Start Finance
GCF	Green Climate Fund
GEF	Global Environment Facility
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GCCA	Global Climate Change Alliance
LDC	Least Developed Countries
LDCF	Least Developed Countries' Fund
MED	Ministry of Economic Development
MEGD	Ministry of Environment and Green Development
MoF	Ministry of Finance
MIC	Middle Income Country
MIE	Multilateral Implementing Entity
MRV	Monitoring Reporting and Verification
NAMA	Nationally Appropriate Mitigation Action
NAPA	National Adaptation Plans of Action
NIE	National Implementing Entity
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
PPCR	World Bank's Pilot Programme for Climate Resilience
PRDI	Participatory Research and Development Initiative
PRSP	Poverty Reduction Strategy Paper
REDD	Reducing Emissions from Deforestation and Forest Degradation
RIE	Regional Implementing Entity
SANBI	South African National Biodiversity Institute
SCCF	Special Climate Change Fund
SIDS	Small Island Developing States
SPCR	Strategic Programme for Climate Resilience
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change

UNAGF	United Nations High level Advisory Group on Finance
UNDP	United Nations Development Program
UNFCCC	United Nations Framework Convention on Climate Change
WB	World Bank

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Executive Summary

This report is aimed to kick-start discussions in Mongolia to improve its climate readiness capacity and to support work towards the establishment of a national implementing entity which could be accredited to directly access external funds. There is no rigid framework which must be adhered to: everyone is on a learning curve. But there is an emerging understanding about what types of capacities and processes might be expected and Mongolia will need to ensure it has these capabilities.

- Mongolia faces very specific and demanding challenges in dealing with climate change in relation to both the serious impacts of climate change on its arid, fragile environment, and also because it has major economic development issues to tackle

- Mongolia needs to increase its international climate profile to get more climate finance. As a small middle income country, but with serious climate vulnerability in both rural and peri-urban populations, it is seen neither as a Least Developed Country needing priority support, nor is it a powerful emerging economy which has to be taken into account, unlike China and India. Currently it receives a low level of international climate funds

- The climate is ripe for change as with momentum around changes established by the new Government: there is dynamism and aspiration

- Climate financing in Mongolia needs to move from project to programmes- to more systematic and scaled up approaches with new access and delivery models and a robust structure across Government

- There is a need for strengthened know-how and a big step up in competence on accessing development finance and to get ready for the Green Climate Fund (GCF)

- There is a lot of proven capacity, expertise and experience to build on: champions to lead and a robust policy base with a capacity for delivery

- With the economic development in hand, and likely to unfold around the minerals and energy sectors, the carbon side of the climate change agenda, is very important in terms of future finances.

- Energy concerns open up the issue of the private sector and the need to establish a mechanism which can interface with it both on low carbon technologies, as well as the adaptation issues

- It is also vital to blend current climate relevant spend by the Government with donor funds

- Capacity to develop bilateral approaches with donors would also be advantageous as key countries such as Germany and Japan may not put all their resources into the GCF (Green Climate Fund.

- It is not yet clear how the national interfaces will work with the Green Climate Fund- it is just starting its work programme to develop its modes of working, so there is some sense in not rushing in too fast, but to start and learn

For the medium term, the key critical issue to resolve is for decision-makers to decide how far the NIE should be embedded within Government, and how far to create a new institution. In the short term, within the Government framework an institutional package could be assembled quite quickly.

From current analysis it seems that an NIE would need to be able to deliver the following services: [1]

A. Policy strategies and an institutional base for financial planning involving: the ability to identify needs and priorities and recognise barriers.; the capacity to formulate project/programme/sector-wide approaches for national needs; the ability to develop a project pipeline; and the capacity to identify, policy mix and sources of financing, including private sector

B. Capacity to access finance, make applications- and to blend and combine finance

C. Ability to deliver and implement: there is a need to be able to procure, implement and execute project, programme, and sector wide approaches, using standard environmental and social guidelines. It is necessary to build a local supply of expertise and skills, coordinate implementation

D. Financial management, audit and monitoring competences are vital. Need to monitor, verify and report from a database, performance–based payments

E. Capacity to manage a forum and/ or other ways of working with stakeholders and civil society

The current capacity of the Government of Mongolia to deliver these services is reviewed in the report to enable strengths and weaknesses to be assessed. From discussions with decision-makers in Mongolia, ideas were collected as to how capacity could be built to cover these gaps and these are presented in the report.

The suggested route map is that the short term, the Climate Change Coordinating Office with GIZ Mongolia lead discussions to create an informal working group (Informal Working group on Climate Change IWGCF) tasked with developing a package with Ministries which can operate as an NIE, as a first stage. Over time, formal institutionalisation can take place to the NIE. This approach would work with the new Government's current desire not to create new institutions and funding mechanisms. In addition, there could be a co-development of arrangements with the GCF which is yet to get established. Right now, for 2013, the focus could be on accessing current funds, including bilateral donors and the CIFs.

GIZ international has identified that support is needed in the following areas to prepare for climate finance and is supporting countries in the following ways:

- Planning climate finance readiness
- Strengthen national institutions
- Promote transparent and efficient spending
- Build knowledge
- Involve private sector

For capacity building, it is recommended that support is sought from GIZ, other donors and agencies on all these themes, with key priorities being: training on international climate finance; electronic project management systems; project profile development and skills for

[1] Sources, UNDP (2012) Readiness for Transformative Climate Finance: A framework for understanding what it means to use climate finance. UNDP New York; Adaptation Fund NIE Accreditation Toolkit Manual.
https://www.adaptation-fund.org/page/accreditation-toolkit-manual-printable-version-toolkit accessed 01-12-12
GIZ (2012) Ready for Climate Finance- GIZ's Approach to Making Climate Finance Work
Froede, A. and C. Assman, (2012) Capacity development for direct access to climate finance- experience gained through GIZ's support work for national institutions. GIZ Internal Discussion paper. Eschborn, Germany.
Fu-Bertaux, X. and A. Froede (2012) Its not just the money: institutional strengthening of national climate funds: lessons learned from GIZ's work on the ground.GIZ, Germany

climate negotiations. A summary table outlines key activities for climate readiness in the following institutional arrangements and processes: Create Informal NIE Structure and Start Activities; Create Formal NIE Structure; Capacity development; Establishing dialogues with Donors, Local government; the Private sector; Civil society and NGOs. Other supporting activities are also identified.

Section 1: External context

Mongolia faces very specific and demanding challenges in dealing with climate change in relation to both the serious impacts of climate change on its arid, fragile environment, and also because it has two different major economic development issues to tackle. Poverty in both rural and peri-urban populations means that nearly 40% [2]of the population have characteristics much in common with the people in the Least Developed Group of countries which is the grouping of the poorest countries in the UNFCCC. And, as it is at the start of a huge expansion based on its mineral wealth it faces issues to establish sustainable growth based on low carbon pathways in common with the emerging group of economies as in the BASIC group which operates in the UNFCCC.

Providing finance for vulnerable countries was a fundamental part of the UN Rio Treaty (UNFCCC) in 1992. But, once the reality of climate change became clear, delivery became an overwhelming necessity. There has been general agreement about the urgent need for additional funds for climate change activities, and efficient, transparent and country-driven approaches to the delivery of climate finance are now crucial to achieving the global objectives of climate change policy. Recently, there have been important new developments in the international institutional architecture with the establishment of the Green Climate Fund (GCF). The GCF is aimed to pursue a country driven approach and to strengthen engagement through the effective involvement of the relevant institutions and stakeholders on country level[3].

There are already a vast number of national and international funds, with different access modalities and diversity of projects funded that can make climate finance complex and difficult to understand. Mongolia has already benefitted from some support. However, key decision-makers in the country now recognise that there are further opportunities for Mongolia to access international funds, particularly as the focus is moving from the pilot phase Fast Start Funds to the GCF framework, which will operate out of its new Songdo base in Korea. The development of this initiative at this time would align well with the establishment of the new Government and momentum around green development.

At both international level and country level there is increased attention on building and strengthening national systems to they are “ready” to use climate finance effectively in ways that promote transformations in production and consumption patterns at the national level. This focus is the concept of “readiness” and the establishment of National Implementing Entities (NIEs) [4]. According to a recent UNFCCC report:

“Enhanced enabling environments are needed which recognise that national policy, regulatory and governance frameworks play a crucial role in reducing investment barriers and using climate finance effectively. (CP/2012/3) International policies can reinforce and support efforts to enhance enabling environments by setting ambitious targets and norm, increasing transparency and information and fostering learning. There is a need to continue

[2] In fact, according to the UNDP Country Strategy, the poverty rate increased between 2003-10 in spite of high economic growth , due to the narrow base of the economy

[3] Green Climate Fund (2012): Governing Instrument for the Green Climate Fund, Objectives and Guiding Principles, http://gcfund.net/fileadmin/00_customer/documents/pdf/GCF-governing_instrument-120521-block-LY.pdf, accessed 24.08.2012.

[4] ODI and UNDP (2011) Discussion Paper Direct Access to Climate Finance; experiences and lessons learned. UNDP, Environment and Energy new York.

to build and strengthen national systems and institutions and to sustain investments in human, institutional capacities to use finance more effectively" [5] *.*

The UNFCCC report also recommends: "*Also that a regular climate finance forum is created which brings together all relevant actors: public sector and private sector and other stakeholders to build an effective response and rapidly increase the deployment of finance for mitigation and climate resilient development institutional and technical capacities to use finance more effectively"* (UNFCCC, 2012 page 5).

This report is aimed to help Mongolia improve its climate readiness capacity and work towards the establishment of a national implementing entity which could directly access external funds. There is no rigid framework which must be adhered to, but some early experience from the Adaptation Fund about what types of capacities and processes might be expected. But everyone is on a learning curve. The basic narrative of the report starts from where we are, reviews what's on offer, assesses what Mongolia needs, considers how that relates to what is generally seen to be necessary for an NIE, and then examines how Mongolia is shaping up in terms of a climate readiness capacity. The final sections outline recommendations for next steps to establish an NIE, and then review what capacities are needed.

The structure of the report is as follows. The next section outlines what international climate funds are available and also issues around the funding environment. The third section provides a stocktake of what's needed on climate finance from Mongolia's perspective by reviewing Mongolia's agenda for action through its policy framework and –also outlines what donors are doing. Section four examines what are the requirements for a National Implementing Entity (or comparable mechanism) from external perspectives and establishes key components. Section five assesses the capacity of Mongolia currently to deliver the necessary services and components for an NIE. It describes how things work in detail. Section ix outlines the development of a climate finance road map for Mongolia, outlining the steps of establishment for a NIE. It identifies risks, and issues to resolve and provides institutional options revealed during discussions. In section seven overarching capacity needs are identified in relation to services which GIZ offers for delivery for climate finance readiness and institutional strengthening. And finally in Section eight a summary table is provided with key actions for the Climate Finance Readiness Roadmap for Mongolia

[5] UNFCCC (2012) Report on the workshops of the work programme on long-term finance. Note by Co-Chairs FCCC/CP/2012/3 page4.

Section 2: International Climate Funds

This section outlines what international climate funds are available and also issues around the funding environment

There are a growing number of international climate finance initiatives designed to help developing countries address the challenges of climate change . Aligning and mobilising external finance in ways that are aligned with national systems and priorities is extremely complex as there are more than 50 international public funds, 60 carbon markets, and 6,000 private equity funds already providing "green finance" [6]. Key funds are listed in the table below (and see also Annex 2) .

Mongolia has so far received funds for specific climate change activities from several sources: the GEF, the Adaptation Fund, (through UNDP acting as intermediary), the World Bank, and activities funded by the Governments of Germany and Japan (see the table below). A major motivation for the climate readiness report is to enable access to the GCF, which is intended to follow on the Fast Start Funds. More funding for the country is needed: the website Climate Funds Update reports that:

"Asia has received the most international climate finance to date, largely for mitigation activities. China and India both receive and spend the largest amount of climate finance globally, whereas the region's most vulnerable countries, particularly the small Pacific Island states, receive very little funding."

However, Mongolia has received the smallest amount of the funds allocated in continental Asia, (with the exception of Myanmar), and around one-quarter of Nepal's allocation [7]. It is not eligible for the LDCF and not yet covered by the CIFs.

Key points are made on the various funds below.

Global Environmental Facility (GEF) and Least Developed Countries Fund (LDCF)

The GEF administers various funds specifically for climate change and since 2002. As of December 2011, the LDCF has approved over US$ 215 mn to implement 52 projects and programmes in 42 LDC countries, and US$150 mn through the Special Climate Change Fund to implement as many as 39 projects. The resources within the LDCF have not been sufficient to get many NAPA projects implemented and GEF procedures have been challenging for developing countries[8] which is why they have created new mechanisms in the UNFCCC- the AF and the GCF.

CIFs

The Climate Investment Funds (CIFs) are made up of four funding windows to help developing countries pilot low-emissions and climate-resilient development. With CIF support, 48 developing countries are piloting transformations in clean technology, sustainable management of forests, increased energy access through renewable energy, and climate-resilient development The CIFs are: the Clean Technology Fund ($5 billion to date pledged) and three funds- the Forest Investment Programme; the Pilot Programme for Climate Resilience and the Scaling Up Renewable Energy Programme. These three funds come within the Strategic Climate Fund ($2.2 billion pledged). CIFs provide grants,

[6] UNDP (2012) Readiness for Transformative Climate Finance: A framework for understanding what it means to use climate finance. UNDP New York

[7] www.climatefundsupdate.org. Accessed 01/12/12

[8] Nepal has recently outlined the problems and delays in accessing climate funds to the UNFCCC

concessional loans and risk mitigation instruments. However Mongolia is not yet included as a target country although it was initially included on the list of pilot countries in 2010 but then substituted by Nepal and placed on the reserve list[9].

[9] Letter to SREP CO-Chairs, World Bank, from Minister of Mineral Resources and Energy 05-11-10

International climate funds

Fund	Type of Fund	Adaptation	Mitigation	REDD
Adaptation Fund (AF)	Multilateral, within UNFCCC	√		
Least Developed Countries Fund (LDCF)	Multilateral, within UNFCCC	√		
Special Climate Change Fund (SCCF)	Multilateral, within UNFCCC	√		
GEF Trust Funds	Multilateral, within UNFCCC	√		
Pilot Program for Climate Resilience (PPCR)	Multilateral , CIF WB	√		
Clean Technology Fund (CTF)	Multilateral , CIF WB		√	
Scaling-Up Renewable Energy Program for Low Income Countries (SREP)	Multilateral , CIF WB		√	
Global Energy Efficiency and Renewable Energy Fund (GEEREF)	Multilateral , EU		√	
Global Climate Change Alliance (GCCA)	Multilateral , EU	√	√	√
UN-REDD	Multilateral			√
Forest Carbon Partnership Facility (FCPF)	Multilateral			√
UK's International Climate Fund	Bilateral	√	√	√
Japan's Fast Start Finance	Bilateral	√	√	√
Germany's International Climate Initiative	Bilateral	√	√	√
Norway's International Climate and Forest's initiative	Bilateral			√

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Adaptation Fund (AF)

The AF falls under the Kyoto Protocol: it has limited funds and a significant amount has gone in administration, this fund is likely to be overtaken by Green Climate Fund. As of October 2012 the fund had received $308 million of which 60% came from CER receipts but had actually disbursed only 14% of this, as most projects were still underway [10].The current low price of carbon is currently of concern as it has an impact on the ability and potential of the Adaptation Fund to generate revenues from the sale of certified emission reduction units. Some countries such as the UK have made bilateral donations, but once the GCF gets going it is expected to be the focus of momentum. Finally, it should be said that UNDP which has been Mongolia's NIE for the AF can no longer access the AF funds, which have a 50% limit for Multilateral Implementing Entities (MIEs). The AF is unlikely to allocate further funds to Mongolia in the foreseeable future.

Fast Start Funds (FSF)

The FSFs started in the Copenhagen Accord of the UNFCCC as a predecessor to the GCF, the short term ($30 billion 'fast track 2010-2012) compared to the medium term finance ($100 billion annually by 2020). The EU has been particularly forthcoming as whole with a 28.5 million euro contribution (most from Germany and the UK as the EC and the Member States operate separately). However, allocations are usually not "new and additional", there has been rebranding, for example of the PPCR contributions being called FSFs. There is no direct access to FSFs, nor have countries even been consulted about what is FSF in its country- decisions are made by donors. The Fast Start Funds are due to close at the end of 2012, and the intention was that long-term funding would then come under the GCF. It seems Mongolia has not received FSFs.

Green Climate Fund (GCF)

The GCF[11] is to make a serious and ambitious contribution to the global efforts towards attaining the goals set by the international community to combat climate change. The fund will play a key role in channelling, new, additional, adequate and predictable financial resources to developing countries and will catalyse climate finance both public and private and at international and national levels. The fund will pursue a country-driven approach and promote and strengthen engagement at the country level though effective involvement of relevant institutions and stakeholders. The fund is to be a continuous learning institution guided by processes for monitoring and evaluation. The fund will provide simplified and improved access to funding, including direct access, basing its activities on a country-driven approach and will encourage the involvement of relevant stakeholders, including vulnerable groups and addressing gender aspects. .

The GCF was launched at Durban, but there is still no money for funding allocations which should start in 2013, start-up funds were provided (by Germany, Denmark and Korea). The COP approved the governing instrument, the document containing the key design elements was the product of many months of painstaking negotiations by the Transitional Committee. Part of the COP decision on the GCF clarifies the greater role and voice of designated national authorities in approval of funding proposals so as to ensure consistency with national strategies and plans, in response to pressures from developing countries for institutional arrangements and mechanisms that provide greater legitimacy, and enable direct access. Note the various arrangements will be finalised with the selection of the host country of the fund.

One stumbling block has always been the sourcing of the new and additional funds required. Developing countries have frequently emphasised that the new and additional climate finance should be from developed country *public* finances. Developed countries think that it will be innovative funding, linked to the private sector, which delivers over the long term. One new idea which had been developed by the World Bank, OECD, Regional Development Banks has been to put a price on carbon fuels from aviation and shipping. But a group of the

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[10] http://fiftrustee.worldbank.org/webroot/data/AF_MR_1.pdf accessed 01/12/12
[11] Source: http://gcfund.net/about-the-fund/mandate-and-governance.html

larger developing countries opposed endeavours to raise this international carbon tax in the absence of compensation- “no net incidence” (including India, China, Brazil and Saudi Arabia). In fact Durban showed clear splits in the G77 and China negotiating group and the LDC group argue for a dedicated funding window for LDCs and SIDS[12]. These issues are still not resolved as is clear from the debates in Doha.

Overall Mongolia has had very limited access to specific international climate funds and what has been allocated has often been under general development assistance- see Box below

Box 1 Key current and recent CC projects in Mongolia funded by external sources

Funding source Adaptation Fund: Ecosystem-based Adaptation Approach to Maintaining Water Security in Critical Catchments in Mongolia" project, implemented by the UNDP as MIE, Duration: 2011 – 2017, Funding: 5,500,000 USD

Funding source: German Federal Ministry for Economic Cooperation and Development (BMZ) euro 10mn: GIZ Program “Biodiversity and adaptation of key forest ecosystems to climate change”, this is for 10 years duration

Funding source: ADB and SDC have linked projects. ADB “Strengthening Carbon Financing for Regional Grassland Management in Northeast Asia (2010- 2012) and SDC “Linking Herders to Carbon Markets” (2011-2013).

Funding source Global Environmental Facility:: Energy efficiency in buildings to promote low ghg emissions UNDP Implementaing agency grant $975,000 and $2.3 million and Mongolia Livestock asdaptation project Agency IFAF $1.5 million grant and con-financing $35.million; Mongolia Urban Transport Investment progamem Agency ADB $1.4 million grant and 272.9 milion co-financing

The CDM Bureau has been supported by the WB "Capacity Building for Development and Implementation of Carbon Finance Projects" project (2008-2010), ADB "Capacity Building program on Clean development mechanism" (Oct 2009 - Apr 2010) and a GEF funded UNEP Project (Regional project) on Technology Needs Assessment (Mar 2011-June 2012).

Implications

North- South funding mechanisms have been increased and there are now established climate funding mechanisms and new modes of delivery being created. There is a direct access route to the GEF, and the new institutions, AF, CIFs and will be for the GCF. However what’s needed is many times more than present ODA so new and innovative funds are needed and private finance must be brought into the mix [13]. According to UNDP: for climate finance to be effective, the international community must do more than simply

[12] The interests of LDCs and AOSIS diverged from the bigger countries particularly from the BASIC group. LDCs also think that adaptation funding has to be on a fully grant basis; second, the access must be direct by Parties and thirdly, while the funds may be coordinated by the COP for efficient fiduciary management though multilateral financial institutions, the choice of projects, and actual use and management of the funds must be in the hands of the designated National Implementing Entities who may be helped to develop their capacity and human skills.

[13] UNAGF (2010) *Report of UN Secretary General’s High level Advisory Group on Climate Change Financing*, 5 November 2010, http://www.un.org/wcm/content/site/climatechange/pages/financeadvisorygroup/pid/13300

increase resource flows: three key issues to promote reforms at the national level transformations needed[14]:

- Limited public finance must be used to develop and enabling environment at national and local levels that redirects existing public investments and provides the incentives for private finance to invest in low-emissions and climate resilient activities[15]. IEA estimate that the global investment to transform energy systems alone will likely come from households 40%, 40% from businesses and just 20% for Government[16].

- There is a very challenging environment for climate change finance, and within the UNFCCC there are suggestions that a political process is now required covering the scaling-up and mobilisation of climate finance and to improve clarity and predictability in the delivery of climate finance after the FSF period [17].

- Decades of research on development assistance shows that development actions such as those needed to promote transformational change to address climate change are severely undermined by isolation from mainstream national development planning and poverty reduction strategies.

The report will now explore in section three how Mongolia is currently benefitting from climate finance mechanisms and what country discussions revealed what decision-makers would like. Then sections four and five will examine what the issues are in relation to organising institutional readiness for climate finance and how Mongolia currently matches up to this. An assessment is then made and recommendations outlined for future actions in sections 6-8.

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[14] UNDP (2012) Readiness for Transformative Climate Finance: A framework for understanding what it means to use climate finance. UNDP New York

[15] UNDP (2012) Readiness for Transformative Climate Finance: A framework for understanding what it means to use climate finance. UNDP New York

[16] IEA (2009) World Energy Outlook 2009. International Energy Agency, Paris.

[17] UNFCCC (2012) Report on the workshops of the work programme on long-term finance. Note by Co-Chairs FCCC/CP/2012/3 page 4

Section 3: Mongolia's agenda for action, recent initiatives and the development agenda

This section provides a stocktake of what is needed on climate finance from Mongolia's perspective by reviewing Mongolia's agenda for action through its policy framework and also outlines what donors are doing.

Mongolia's Agenda for Action

The Government of Mongolia has taken several steps to deal with environmental and natural resources issues. However, there is still no law or any regulation mechanism addressing climate change related problems. Some of existing laws and regulations directly or indirectly relate to GHG mitigation and adaptation to climate change issue.

Since 1992, the Parliament of Mongolia has passed several laws directed toward environmental protection, including the State Policy on the Environment (1997), which forms the legal basis for the protection of the environment and Mongolia's natural resources. In 1995, the Mongolian Environmental Action Plan was presented. The plan of action outlines the country's priorities for environment and resources management. The Mongolian Action Programme for the 21^{st} Century (MAP21), the National Action Plan to Combat Desertification, the National Biodiversity Action Plan, the Action Programme to Protect Air, and the National Action Programme to Protect Ozone layer was developed. Especially, the MAP 21 includes concrete considerations and recommendations related to adaptation to climate change and mitigation of GHGs emissions. The Law on Air and Law on Environmental Protection are the main legal instruments for climate change related issues. In relation to policy the key document is the National Action Programme on Climate Change. In order to comply with the obligations and commitments under the UNFCCC as well as to address challenges relevant to climate change, Mongolia has developed its NAPCC and it was approved by Mongolian Parliament on 06, Feb, 2011, and its first phase action plan was approved by the Government in November, 2011. The action programme includes the national policy and strategy to tackle the adverse impacts of climate change and to mitigate greenhouse gas emissions. It is to be implemented in two phases:

- The first phase (2011-2016) – national mitigation and adaptation capacity will be strengthened, legal environment, structure, institutional and management system will be set-up, and community and public awareness and participation in climate change activities will be improved.
- The second phase (2017-2021) – climate change adaptation measures will be implemented and GHG mitigation actions will be commence.

The goals of the programme are to ensure environmental sustainability, development of social-economic sectors adapted to climate change, reduction of vulnerabilities and risks, and mitigation of GHG emissions as well as promoting economic effectiveness and efficiency and implementation of 'green growth' policies.

NAPCC is aimed not only at meeting the UNFCCC obligations, but also at setting priorities for action and to integrate climate change concerns into other national and sectoral development plans and programmes. The Action plan includes a set of measures, actions and strategies that enable vulnerable sectors to adapt to potential climate change and to mitigate GHGs emissions.

<u>The Millennium Development Goals – based Comprehensive National Development Strategy, 2008</u>**:** defines the country's policy up to the year 2021 aimed at promoting human development in Mongolia, The strategy identified 6 priority areas of development of

Mongolia, of which the 5th priority is “to create a sustainable environment for development by promoting capacities and measures on adaptation to climate change, halting imbalances in the country’s ecosystems and protecting them.” In the strategic objective 6,entitled “Promote capacity to adapt to climate change and desertification, to reduce their negative impacts” of this priority area, the climate change adaptation activities and measures are identified .

Government action plan (2012-2016): has been approved recently. The action plan is aimed at implementing Government platform in 4 main categories namely Mongolian people with job and income; Healthy Mongolian people; Well-educated Mongolian people and Mongolian people in safe environment. Measures relevant to protection of the environment and climate change related issues are included in the last category and only one article covers adaptation, namely:

Develop climate change adaptation policy by ecological-economic zones and implement it in some river basins.

Responsibilities of Government Ministries

As can be seen from Box 2, responsibilities on climate change are shared across three key Ministries, Finance (MoF) , Economic Development (MED) and Ministry of Environment and Green Development (MEGD). Whilst MEGD has the core policy lead, there are responsibilities on MoF and MED which certainly mean they need to be involved in developing climate readiness capacity.

Box 2

Ministries with responsibilities for climate change engagement; Finance (MoF), Economic Development (MED), and Ministry of Environment and Green Development (MEGD)

a. The central government administration authority responsible for finance and state budget (MoF) will incorporate the required financial resources to implement the National Action Program on Climate Change /NAPCC/ into the state budget, and allocate other funding such as international aid and investments.

b. The responsible agency of National Development and Innovation /Economic Development/ (MED) shall ensure climate change and green growth strategies are incorporated into national policies and strategies related to the environment, socio-economic development and national security. It will also coordinate actions and strategic planning across multiple sectors and report to the Government.

The central government administration authority responsible for environment and green development (MEGD) will engage in international dialogues and events related to climate change, develop government policies and strategies on climate change, enforce legal requirements for the protection, conservation and appropriate use of natural resource, improve soil, water and forest resource management, strengthen environmental monitoring networks, conduct necessary research, disseminate scientific information about the environment to individuals and institutions, implement climate change projects using internal and external funding and coordinate the actions of multiple ministries, agencies and organizations. The authority will also report to the Government.

Donor response to Mongolia's climate change needs

Generally donor support is orientated to general development needs and not climate change specifically. However the situation is changing: but not as a result of strong dialogues.

ADB

For decades ADB has been one of Mongolia's largest sources of ODA playing a key role in the country's transformation to a market –based economy. By the end of December 2011 46 loans had been disbursed with a total value of over $800 million. In addition 12 grant projects totalling £170 million were approved form 2007. ADB's future programme will focus on: transport, energy and water supply infrastructure; access to education and health; and, regional economic cooperation[18].

Whilst investments in energy and water clearly impact on climate change policy, climate change has not featured as a policy theme in ADB's programme so far for Mongolia. However discussions revealed that ADB is now keen to help Mongolia access climate funds and that is considers it could help with project development and management.

World Bank

In climate finance, the World Bank has focused its activities on the Climate Investment Funds in relation to the UNFCCC. But these are not yet being applied to climate change n Mongolia- CC is not a significant focus directly by the Bank but rather it is supporting energy efficiency and improving resilience projects which can be labelled CC .It did support establishing the DNA for the CDM. Currently the WB is focusing on the livestock grazing management, the National Sustainable Livelihoods project, but the current project is ending, so the Bank are considering apparently whether possibly the CIFs could be used for the next stage with soil carbon management [19].

Since 1991, the Bank has provided US$563.7 million to Mongolia, of which US$52.2 million was on IDA grant terms and US$511.5 million was on IDA credit terms. Mongolia also has received an additional US$101.3 million from the global trust funds. IDA has been supporting rural development, education, improving the liveability of Ulaanbaatar, ensuring sound management within the mining sector, sustainable infrastructure development in southern Mongolia, environmental protection, policy development and air pollution abatement measures.

In the energy sector, the amount of overall system losses for electricity distribution companies continues to decline. The World Bank's Energy Project has reduced technical and non-technical losses from an average of 31 per cent to 22.7%t in Ulaanbaatar (UB), and from 33.7% to 15% in six *aimag* centers. Overall system losses have been reduced to 25 % revenue collection ratio at *aimag* utilities has been increased to 94.5% while the targets are 20 % and 90% respectively.

In urban development, Bank programs support the construction of water systems within *ger (nomadic tents)* areas. By constructing new water kiosks, the number of persons per water kiosk has decreased to 892 from 1492 per kiosk. Clean Air project is about replacing stoves and helping national entities to produce and renovate stoves. Most stoves are imported but there is a need to produce locally available stoves that can be fixed.

UNDP

[18] ADB (2011 Asian development Bank and Mongolia. Fact Sheet

[19] But would this be a priority for the GoM?)

UNDP's country programme between 2007-11 focused on five components: (1) achieving the MDGs and reducing human poverty; (2) strengthening democracy, accountability and transparency; (3) access to justice and human rights;(4) improving energy and environmental sustainability; and, (5) crisis prevention and recovery. This was assessed and significant progress was found in all development areas. However on the poverty and MDG goal, efforts were focusing on increasing awareness, getting MDGs into long term policy and educational and statistical improvements. In relation to energy and environmental sustainability, governance capacities were strengthened at all levels and some progress was made on high-efficiency insulation for gers.

The proposed country programme will "focus on supporting national plans and strategies that tackle barriers to progress". In relation to climate change, this falls under the environmental and sustainable development part of the programme in support of MDG 7 and will underpin planning, management and coordination strategies at central and local levels. It is intended to develop and implement a roadmap to address gaps, overlaps, and shortcomings of environmental laws in Mongolia., including the monitoring of compliance with environmental legislation.

On climate change adaptation and mitigation, UNDP is intending to support implementation of national action programmes for climate change and combating desertification, nationally appropriate action and capacity development of the nascent Climate Change Coordination Committee. To prioritise adaptation measures for different sectors, a cost-benefit analysis will be undertaken. Methodologies will be enhanced to improve accuracy of a national GHG inventory. Additional work with be undertaken on disaster preparedness and response, and local work with herders an a range of livelihood support systems including land, water and forest management and biodiversity conservation. In addition energy efficiency in the building sector will be further promoted as a long term measure for abatement of air pollution and emission reduction.

UNDP have made Mongolia a pilot country on the economics of adaptation, using the Yale methodology and training three officials. With this new program, country teams in Asia will be skilled-up in ways to design and evaluate climate change adaptation projects, developing crucial skills in climate change adaptation economics. Leading decision-makers and technical teams in key ministries throughout Asia will benefit from this ambitious and wide-ranging program, involving further skills development activities, alongside country level studies and analyses.

GIZ

GIZ first set up a country office in Mongolia in 1998. GIZ Mongolia works in priority areas of Sustainable Economic Development and Environmental Policy including Energy Efficiency. GIZ Mongolia works primarily on behalf of the German Federal Ministry for Economic Cooperation and development (BMZ). GIZ Mongolia employs 130 staff members and its turn over annually is approximately 10 million euro. GIZ are looking to raise $4-5mn for the Climate Readiness REDD+ project to create a create national inventory.

JICA and the Government of Japan

JICA in Mongolia work on three key sectors: sustainable mining and governance, inclusive growth and UB's urban programmer (energy, water, garbage, traffic). JICA wants the proper use of funds from the mining sector. JICA runs 500 courses a year in Japan, 100 people attend from Mongolia and possibly this route could be used for climate training.

Mongolia has sought for capacity to progress its NAMA proposals and has asked Japan and Korea to help operationalise these. So far, sectors have been identified and appropriate actions but these are not yet projects. This is a direct arrangement with the Governments of Korea and Japan, and not through the JICA Country Office.

<u>USAID Project preparation finance</u>

USAID have a strategy on adaptation in Asia but actually not much is yet visible and there is no activity in Mongolia. The strategy is identifying and tracking potential adaptation projects or project components in the target countries;

- Deploying targeted technical assistance at key stages of the project cycle;
- Replicating policies and best practices in adaptation projects through twinning partnerships; and
- Tracking project successes and sharing them through the knowledge sharing platform

They are seeking to provide capacity for funding as “adaptation funds may also be available from unexpected sources, such as grant funded projects by multilateral development banks”.

Section 4: A review of the requirements for an NIE

This section examines what are the requirements for an NIE or comparable mechanism from external perspectives and establishes key components.

A review will now be made to establish what the requirements are for an NIE ("or comparable mechanism"). It should be stressed that the situation is very dynamic with constant changes, as all are involved in a learning situation. Changes in approach are evident in the approach of the Adaptation Fund Board, which has been leading through their work in accrediting national institutions that could obtain direct access to the fund- see Box 3. It is far better to re-frame the agenda as being about direct access and climate finance readiness. Direct access allows accredited entities to access financial resources directly form a funding source without going through an intermediary (such as UNDP) [20]. Climate finance readiness is about the broader contextual framework within a country which enables climate finance to be accessed, mobilised and implemented. It should also be stressed that the situation is very competitive, many countries are gearing up and GIZ alone is supporting climate readiness activities in many countries.

Box 3 Experience with the Adaptation Fund Board

In South Africa, SANBI report that the most significant problem was that the rules and requirements of the Adaptation Fund are changing frequently, which is very challenging for NIEs and project proposal process. As an example, a project proposal could originally be completed in 10 pages, whereas now the required information would cover approximately 40 pages. Included in these more extensive requirements is the need to justify the total cost of adaptation for which there is limited data availability. There is also the need to provide strong evidence that the activity is not business as usual, and that the project is a climate change project as opposed to a development project. Finally, the project must be concrete, with implementation evidence on the ground, and be demonstrated to be the most appropriate approach to the identified problem [21].

It will also be appropriate to explore the functions, responsibilities, and competencies that this institution will have to demonstrate that it can meet to high standards in the context of the emerging modalities for access to the global Green Climate Fund. Early indicators suggest that clarifying the modalities for direct access to the GCF is likely to be an early priority for the work programme of the fund. While the standards and approaches that the GCF adopts will be informed by the Adaptation Fund experience, there are likely to be some differences, including a more encompassing approach to environmental and social safeguards than reflected in the adaptation fund fiduciary standards [22] .

The GCF is also likely to support for further readiness activities. Furthermore, a growing number of bilateral and multilateral actors in climate finance are seeking opportunities to invest in well elaborated programmes that will demonstrate clear climate change benefits. There is particular interest in investing in "flagship programmes" that demonstrate strong potential to deliver transformative change and build on on-going efforts to strengthen and improve underlying policy and regulatory frameworks through their climate change strategy development programme[23].

[20] Froede, A. and C. Assman, (2012) Capacity development for direct access to climate finance- experience gained through GIZ's support work for national institutions. GIZ Internal Discussion paper. Eschborn, Germany.
[21] Whitley, S (2012) and S. Nakhooda. Report to GIZ : Tunisia Finance training. Tunis June 7-8 2012 Workshop Report on Tunisia for GIZ, ODI London, 2012
[22] Ibid
[23] Ibid

What donors think is needed

There are now some reviews and analyses available about what is seen to be required for National Implementing Entities and also what support is needed for them to be established, including from UNDP a report on what capacities are needed[24], and from GIZ what support is needed to establish NIEs [25] .

It is therefore possible to suggest that an NIE would need to be able to deliver the following services:

A. **Policy strategies and an institutional base for financial planning: ability to identify needs and priorities and recognise barriers. Capacity to formulate project/programme/sector-wide approaches for national needs, and develop a project pipeline. Capacity to identify, policy mix and sources of financing, including from the private sector**
B. **Capacity to access finance, make applications- and to blend and combine finance**
C. **Ability to deliver and implement: there is a need to be able to procure, implement and execute project, programme, and sector wide approaches, using standard environmental and social guidelines. It is necessary to build a local supply of expertise and skills, coordinate implementation**
D. **Financial management, audit and monitoring competences are vital. Need to monitor, verify and report from a database, performance –based payments**
E. **Capacity to manage a forum and/ or other ways of working with stakeholders and civil society**

The current capacity of the MoG to deliver these services will now be discussed, to enable strengths and weaknesses to be assessed.

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[24] UNDP (2012) Readiness for Transformative Climate Finance: A framework for understanding what it means to use climate finance. UNDP New York

[25] GIZ (2012) Ready for Climate Finance- GIZ's Approach to Making Climate Finance Work;
Froede, A. and C. Assman, (2012) Capacity development for direct access to climate finance- experience gained through GIZ's support work for national institutions.
GIZ Internal Discussion paper. Eschborn, Germany.; Fu-Bertaux, X. and A. Froede (2012) Its not just the money: institutional strengthening of national climate funds: lessons learned from GIZ's work on the ground. GIZ, Germany

Section 5: Review existing building blocks

This section assesses the current capacity of Mongolia to deliver the necessary services and components for an NIE. It describes how things work in detail.

A. Policy strategies and institutional base for financial planning

Mongolia is well-placed to develop an NIE from its current policy and institutional base on climate policy. It has a CCAP and the Climate Change Coordination Office (CCCO). The CCCO, under supervision of the Chairman of the NCC, was established by the Government, in order to carry out day to day activities related to the implementation of commitments and duties under the UNFCCC and Kyoto Protocol, to manage the nationwide activities, and to bring into action the integration of climate change related problems in various sectors.

The government had established an inter-disciplinary and inter-sectoral National Climate Committee /NCC/ now led by the MEGD, to coordinate and guide national activities and measures aimed at adapting to climate change and mitigating GHG emissions. High level officials such as Deputy Ministers, State Secretaries and Director-Generals of the main Departments of all related ministries, agencies and other key officials are members of the NCC. However, it is understood this group is not very active.

Following the recent changes to Government structures the MGED is now a much stronger Ministry with clear abilities to perform in a cross-cutting way with the sectoral Ministries. There are also strong synergies with the aims of climate change policy with the green development agenda. Mongolia is also well-placed compared to many countries in that climate change is already embedded in development plans and processes, particularly the MDG-based Comprehensive National Development Strategy of Mongolia; and the national development plan with its development priorities.

There are a number of entities which demonstrate operating experience of action and delivery on climate change and energy policy: the CDM Bureau, the National Renewable Energy Centre, and the Clean Air Foundation (see Box 4).

Box 4 Key features of existing entities which work on delivering climate change and energy policy

- <u>CDM Bureau</u>

The CDM National Bureau was established at the Ministry of Nature, Environment and Tourism on November 14, 2004 by Ministerial order. The National Bureau was officially registered with the Secretariat of United Nations Framework Convention on Climate Change. Since its establishment the Bureau has been dealing with acceptance of CDM project proposals for comment, assessment, support, and approval and issuance of official letters. So far four CDM projects from Mongolia were registered by the CDM Executive Board but 10 have gone through the bureau..

The Bureau had a slow start gradually building capacity until 2008. There was a capacity building project in 2008-10 which established website, and three people are now employed. The Bureau did training about the opportunities of project development. DNA office does not do the implementation- intermediary role.

The CDM Bureau has been supported by the WB "Capacity Building for

Development and Implementation of Carbon Finance Projects" project (2008-2010), ADB "Capacity Building program on Clean development mechanism" (Oct 2009 - Apr 2010) and a GEF funded UNEP Project (Regional project) on Technology Needs Assessment (Mar 2011-June 2012).

- Renewable Energy Centre

The National Renewable Energy Centre has operated as a state owned enterprise since 2009. It was first established as a Renewable Energy Science and Manufacturing Corporation in 1989 and provides know-how on renewable energy. It it is paid for advice, and manages tenders and contracts. It is financially independent, can implement foreign projects, and does not need Government approval for activities. The goals of the center's activities are the sustainable development principles of Mongolia; to achieve the goals of the Renewable Energy National Program; to do detailed study on renewable energy resources and utilization; to introduce new technology of renewable energy; to carry out research on introducing new technology; and implement projects, programs and measurements.

The center carries out activities with two main divisions: Research & Business Development and Production & Technology. There are 86 staff, including 53 technical engineering and specialist staff. It has a PV factory and testing area, and $1mn/ yr. turnover excluding equipment. It falls under the under State Property Committee, which is responsible for state organisations and factories, and has Ministry of Energy oversight. It is an organisation based on science: staff do their own assessments on technology selection. They are the Project Implementing Agency for the WB. Because they are independent they can collaborate directly with other independent organisations..

It can be noted that this state owned company's route might work in the long term for a CC NIE because they have flexibility to hire people and do projects, including their own procurement process.

The Clean Air Fund

The Clean Air Fund, in contrast is Government funded and relatively new, initiated through political leadership by the President to try and finally get action on the problematic issue of air pollution in Ulaan Bataar. Currently there are 5 staff though this will increase when the Clean Air Project (WB) capacity transfers. It receives levies from polluters (coal mines and vehicle users).

- CDM Bureau with IGES- NAMAs

Mongolia was one of 46 developing countries which submitted a list of NAMAs for international support after the Copenhagen climate conference. The list basically comprises policies covering all key sectors of mitigation (energy supply, energy efficiency in key sectors and agriculture and forestry) to which are included in the Second National Communication.

Currently Mongolia is getting support from the Ministry of Environment Japan to develop these for implementation and training workshops with IGES support are being run.
http://unfccc.int/files/meetings/cop_15/copenhagen_accord/application/pdf/mongoliacphaccord_app2.pdf

As was discussed in section three, responsibilities on climate change are shared across three key Ministries, Finance (MoF), Economic Development (MED) and Ministry of Environment and Green Development (MEGD). Whilst MEGD has the core policy lead, there are responsibilities on MoF and MED which certainly mean they need to be involved in developing climate readiness capacity. In addition, experience in other countries suggests there will be tensions between these Ministries and also the sectoral Ministries about roles and responsibilities particularly if and when significant funds can be accessed.

One other point can be made. From the perspective of the consultant it seemed that often donors have led the Government, rather than clear demands being made on donors in respect of climate change. This may be related to the fairly weak Paris Declaration process in the country, particularly in respect of environment, though it would seem that be changing. In any event, a stronger climate readiness capacity would help dictate an agenda on focused priorities that the Government wants to pursue, particularly in respect of capacity building.

B. Capacity to access finance, make applications directly, blending and combining finance.

The core need to create climate readiness lies around capacities for know-how about accessing resources. It is important to be able review and assess the various funding sources out there, identify what source might match what need, and then to pursue the funding with applications. It may also be necessary to blend different types of climate finance (public, private, multi-lateral, bilateral and innovative sources of funding). Whilst climate finance within the auspices of the UNFCCC is about new, and additional sources of funding in practice there are many overlaps in modalities and ways of working with development finance. There is therefore a need for familiarity and capacity to access a range of institutions and find donors with an interest in emerging economies.

Mongolia is a country with a unique set of characteristics and therefore isolated in the international climate world, albeit it is a leading member of the Mountainous Landlocked Countries group. This is not a strong political grouping and regional ties are weak. Many donors focus on LDCs, especially as they are given a lot of attention within the UNFCCC with special funds under the GEF, special planning in NAPAs and a special expert group (LEG)[26]. The UNFCCC is a government to government negotiation, and not about poor people *per se*.[27]. However, there are many millions more poor people in middle income countries, obviously such as Mongolia and vulnerable zones in India and China[28]. This point is being made as contested adaptation issues in agriculture relate to the role of small holder agriculture but poverty alleviation is not in fact core territory for the UNFCCC. These issues will affect Mongolia and it will need to develop negotiation strengths to fight its corner in the UNFCCC.

Moreover, existing capacities on project formulation and applications are recognised by the CCCO, leading officials and development partners as being weak and needing strengthening. It is understood that the usual practice is for donors to come in early in the process with support and consultants are usually involved to produce project applications. The NCCAP is essentially a long list of actions, of which the CCCO have crystallised seven in concept notes of 4-6 pages. Most seem to agree that capacity for development of project proposals is very weak. Furthermore, understanding of opportunities and requirements

[26] Though now the Adaptation Committee is to look into support for non LDCs with Adaptation Plans

[27] Vulnerability is defined in terms of types of developed versus developing countries (Annex 1 and Annex 2) and physical conditions (Article 4.8). This may in part be because 1992 was before the emergence of many large middle income countries, and developing countries could be regarded as a more homogeneous group of poor countries. LDC did get special mention, and they have emerged as a special case with SIDS more strongly within the UNFCCC negotiations

[28] Hedger and Tanner 2008

across the whole range of climate finance is weak, with most understanding about the Adaptation Fund, which is resource stressed.

Clearly the capacities required stretch beyond MEGD into MED and MoF. It is understood before the split of MoF that preliminary discussions had been held with MoF. MED/MoF obviously have little experience of managing climate issues and MEGD little capacity for accessing and managing funds. These issues are discussed in more detail in the next section (6) as they are at the heart of devising a route map to devising a strategy to create climate readiness capacity and an NIE.

There is also the issue of whether a separate climate fund can or should be created. There are models of national trust funds elsewhere, and these are not necessarily implementing entities for external finance. For example in Bangladesh the country took pioneering steps in 2008 to initiate national climate funds which have led to the development of two Trust Funds (the Bangladesh Climate Change Trust Fund and the Bangladesh Climate Change Resilience Fund). However, it should be noted that there were two funds established because donors were concerned that fiduciary standards were not sufficient without the World Bank having a role. The Government then established another fund over which it had direct control- the issues were heavily contested and are still sensitive. Also whist the aim is now to build capacity so that one or a combined version can function as an NIE, the country's application for accreditation under the Adaptation Fund was rejected. In Mongolia there are already 29 Special Funds which need allocations from the State budget annually and approval by Parliament, so getting a new fund is not a quick and easy route. It is not clear that the Government is willing to consider adding more- the approval of Parliament is needed.

One other issue which comes into play is the need to integrate what the Government is already spending from public resources on climate relevant expenditure. UNDP has been exploring how Climate Public Expenditure and Institutional Reviews (CPEIR) can be undertaken and ODI has worked with them on these studies in Nepal, Bangladesh, Thailand, Cambodia and Samoa. In addition the World Bank is preparing a practitioners Handbook. With the proliferation of funding come challenges to ensure that the funds complement each other's investments, rather than competing with each other, e.g. in project and partner selection and visibility. It is vitally important that their programmes address country-driven priorities and that potentially diverging procedures are aligned. These issues matter: not only has climate change received a higher profile in development assistance but a recent major study commissioned by UNDP and supported by the GoB Planning Commission has found that 'climate relevant' spending from domestic budgeted resources is greater than donor assistance (77:23)[29]. Coordination and capacity challenges arise because of the complexity surrounding climate change. These relate not only to intra-ministerial coordination and the challenges of seamless delivery from policy to implementation, but also to the more difficult issue of coordination among development partners.

Basically the approach covers a Public Expenditure Review, a review of policies and institutions; an assessment of the quantity and quality of climate expenditure: a review of the whole budget and an expert assessment of what is climate "relevance". This results in an action plan for implementation.

One final point can be made. The National Development Bank has been successfully established in a very short time and has know-how about external investment interest in

[29]O'Donnell, M, M Hedger; J.Lee; K. N Islam; T. Islam; and R, Khondker (2012*) Bangladesh Climate Public Expenditure and Institutional Review*, February 2012, Dhaka UNDP Bangladesh and Planning Commission, General Economics Division, Government of Bangladesh.

Mongolia, which may particularly be useful on low carbon energy connections and the private sector- see box below.

Box 5: The National Development Bank: notes

Overall the abilities of the country to attract external finance on an investment basis is strong as evidenced by the recent performance of the National Development Bank - set up in May 2011. Its focus is on energy and infrastructure; it may cover housing in the future, but not agriculture. It raises funds and then gives loans. for example it has recently floated a $600m bond (which is guaranteed by the Government). The Bank is 100% stated owned. The management team is from the Korea Development Bank[30]. For information it has good sound management skills which could be of use in demonstrating what is needed. It has a Risk Department which manages the portfolio, and an accounting department which handles in/out payments. Projects are sponsored by the Government and the bond is generated by the Government – that is why it has a good international rating. The Government has got a good track record- better than Spain apparently. The Bank works to its development programme - if CC were to be part of this, the law would need to be changed. And, extra capacity would apparently be needed. The NDB does not use the World Banks' social and environmental assessment procedures.

C. Delivery and implementation:

The next area where capacities are needed in order to meet emerging requirements on national implementing entities to enable direct access to international climate funds is on delivery and implementation of projects. There is a need to be able to procure, implement and execute projects, programmes, and sector wide approaches, using standard environmental and social guidelines. It is also seen to be necessary to build a local supply of expertise and skills, and to coordinate implementation.

Current capacities on implementation, are very limited within MEGD. There is a 10 year strategy with 6 priority areas but in practice it is very difficult to differentiate climate change from development issues, which are handled by the sectoral ministries (water, agriculture etc). Action programmes in the NCCAP do not have Government financial allocations. Normally for development projects the funding agency would procure the work and oversee implementation. Sectoral Ministries oversee their own programmes, but there would need to be much stronger and clearer relationships for the types of major infrastructure projects or herder support programme that are likely to be necessary as climate change funding gets scaled up.

MEGD has to work with MOF on external funding. It cannot implement projects bilaterally, it has to go through other Ministries, and it can only manage activities. MOF handles all internal funding and runs all agreements. But the Special Envoy on CC has authority to make special arrangements with MOF. MOF has general oversight on grants and international relation.s CCCO is an executing entity, MOF does financial management, MED investment, and growth. All international aid and grants go through Ministry channels by law.

It is difficult to find any examples of existing agencies or parts of Government with climate change relevance that could serve as the core of any NIE and which have a solid track record of spending. It would also be necessary to have a track record on project selection and approval with experience in establishing guidelines and standardised processes.

[30] Which could provide good contacts into the GCF which is to be hosted by Korea.

The CDM Bureau has some experience of certifying CDM projects but is not involved at all in project generation or implementation as that is undertaken by developers. However, it has provided training courses (with World Bank support) for developers on what types of projects should be expected. Probably the best example of a working institute for a model is the National Renewable Energy Centre. However, this institute is located well outside Government, has taken several years to establish in its current mode, and is primarily technical and scientific. Therefore it is clear consolidation would be needed around an entity, to provide support so it can transform its role.

On procurement, the Government of Mongolia system is changing, to deliver a more robust and effective system. A centralised Government service is being established, this would mean that any Government based entity could not procure its own resources, but would need to go through the central route. This would mean it had a stronger fiduciary profile but would not be independent.

D. Financial management, audit and monitoring

Issues around financial management, auditing, monitoring and evaluation are increasingly important to those who have resources to lend or give, especially when they come from tax-payers with votes in countries which are themselves reeling from the global financial crisis. The emerging international model would expect that the NIE would have competencies to deliver a high level of management. It is evident that this is an area where support for capacity development would be needed. It seems the MEGD has no electronic project management systems and that the usual system is an annual paper report. In addition, external auditing is organised centrally. All public organisations come under the national audit authority which hires external auditors. And each organisation has to have its own internal auditing undertaken. The MEGD has got Monitoring and Evaluation capcity.

As a parallel initiative to supporting climate readiness, GIZ has started to increase capacities for monitoring and evaluation (M and E) of adaptation projects. But there will be a need to spread this training on M and E across the entire field of climate expenditure, to include forestry and energy activities. It should be noted that this is an area where this is considerable effort internationally currently and likely to be co-learning and synergies with other initiatives possible.

E. Managing a forum and/ or other ways of working with stakeholders and civil society

At international level, it is recognise that the NIE will need capacity to manage stakeholder dialogues. In Mongolia some civil society and non-government organisations partner with government organizations in climate change and environmental activities and measures, and, carry out public awareness activities and increase public participation in the monitoring of natural resources users.

But whilst there are some strong and effective organisations many are weak, and led only be a vociferous few. Civil society generally has good relations with MEGD. There is a Council of Environmental NGOs, but whilst there are some models of CSOs operating as NIEs for the AF in other countries, there would be far too much capacity needed to build this institution into an NIE and also it would be too far from Government for procurement and auditing issues. It should be noted there is a political drive to increase the involvement of civil society in governance in a bid to head-off political alienation due to the narrow base of economic growth around the minerals sector, and the concentration of mining revenues.

On a practical level, the CCCO office does demonstrate its capacity to manage stakeholder engagement and provide leadership. It has ongoing informal working groups on sectors, such as water and forestry and then brings in experts e.g. from universities. Most recently, a successful conference was held on climate change and the water sector with 120 participants from over a 100 of organisations, including Members of Parliament, other Government departments and Ministries, Universities, NGOs, development partners and the private sector (17-18th October 2012).

Section 6: Climate finance readiness in Mongolia: the next steps

This section outlines the development of a climate finance road map for Mongolia, outlining the steps of establishment for a NIE. It identifies risks, and issues to resolve and provides institutional options revealed during discussions.

Overview

- The time is ripe for change with momentum established by the new Government: there is dynamism and innovation
- Climate financing in Mongolia needs to move from project to programmes- to more systematic and scaled up approaches with new access and delivery models and a robust structure across Government.
- There is a need for strengthened know-how and a big step up in competence on accessing development finance and to get ready for the Green Climate Fund (GCF)
- There is a lot of proven capacity, expertise and experience to build from champions and a robust policy base and a capacity for delivery
- With the economic development in hand and likely to unfold around the minerals and energy sectors, the carbon side of the climate change agenda is very important in terms of future finances.
- This particularly opens up the issue of the private sector and the need to establish a mechanism which can interface on low carbon technologies as well as the adaptation issues.
- It is also vital to integrate climate relevant spend by the Government.
- Capacity to develop bilateral approaches with donors would also be advantageous, as key countries such as Germany and Japan, may not put all their resources into the GCF (Green Climate Fund).

Risks

- It is not yet clear how the Green Climate Fund will work with national interfaces as it is starting its work programme now to develop modes of working so there is some sense therefore in not rushing in too fast, but to start slowly and learn.
- Lessons must be drawn from the country's experience with the Environmental Trust Fund- 2005. It failed because of changed political leadership- and issues about who controlled the fund, so that in 2006-7 funds were actually returned to donors. It was established up by law, it had a Board of Trustees with key Ministries (MoF and MNET) but they apparently never went to meetings. Overall a great opportunity was lost, as the idea was to use interest from a capital fund established from Norwegian and Dutch money through AMRO Bank. GEF would have matched any funds the Government put in.
- In any new set-up there are real issues about retention of good calibre staff, because of the weak incentive system in the Government bureaucracy and the fact that the private sector pays 4-5x more. Responsibility for new functions does not necessarily mean additional staff resources or salary increases for those burdened with new responsibilities, so there are actually disincentives for the exploration of new opportunities.

Issues to resolve

- How far should the NIE be embedded within Government, or independent of it? Within Government an institutional package could be assembled quite quickly, a new independent entity would take time and require legislation; also Government would then not control it. Outside of Government an NIE could be liberated form bureaucracy and have more flexibility, and when the success of the National Development Bank is considered and the National Renewable Energy Centre, this could be the route for the long term.

Recommendation

In the short term, discussions can be started to create an informal working group tasked with developing a package which can operate as an NIE, as a first stage. Over time formal institutionalisation can take place. This approach would work with the new Government's desire not to create new institutions and funding mechanisms. In addition, there could be a co-development with the GCF, which is yet to get established. Right now the focus could be on accessing current funds, including bilateral donors and the CIFs.

Discussion of route map

Without exception, all decision-makers within Government saw the increased significance of CC, and the new synergies associated with the move to green development in the new Government, and that MEGD is responsible for Green Development Policy. Everyone had a sense of what a National Implementing Entity (NIE) could do and how it could operate. There were however questions which arose and differences of where the lead should come from.

The perception is that were Mongolia to have its own NIE it would be easier to access external funds. It would avoid management fees and cumbersome external regulations. In addition, it was seen that a single fund could also help to accumulate domestic resources so that there would be blending with international funds. However whilst there is a law to allow Special Funds, each needs approval by Parliament and, as the Government is trying to streamline bureaucracy, it is unlikely that any new funds could get established soon. Advantages were perceived in facilitating alignment with national policies, as national ownership, can harmonise with national development plans. It should also be noted that one single coherent organisation could also provide a 360 degree view of opportunities public, private, multilateral and innovative sources of funding and, assuming the relevant capacity, could make choices about selection of the most appropriate fund.

Perspectives were collected from representatives of the three key Ministries involved: MEGD, MoF and MED, shortly after the new arrangements for them were established by the Government in September/ October 2012. Whilst there is general agreement about how climate readiness can be improved in a new structure, there are differences in emphasis form each Ministry, notably about where the lead should lie. In all proposals, the procurement and auditing would need to work to the new Government system and could not be separate within the direct control, of any NIE, even if it has separate legal status.

Option 1: Working from the CCCO

The CCCO has policy leadership functions which it fulfils. Its head has been appointed by the Prime Minister as his Special Envoy on CC, and is the UNFCCC focal point as well as the designated authority for the AF- so there is no need to go Government for additional approvals. In addition he has direct experience of being part of the UNFCCC's Adaptation Committee. One strong option therefore is for the head of the CCCO to head up a new working group which would be established with representatives of MoF, MED and other key Ministries. The CCCO would operate as the Secretariat.

But, before this was to happen, key officials would need to meet and establish an informal working group. This group would work towards establishing an on-going committee or working group which would be designated as the pilot NIE. The CCCO would be supported by a Consultancy team. It would first work in a pilot phase and then become a fully functional Government office. Then MOF would have final sign off.

The Steering Committee would comprise: MED, MOF, Sectoral ministries such as , Mining, Food and Agriculture, Energy, Transport, and potentially Foreign Affairs (who are the political partner for GEF although the operational focal point is MEGD). It would also be important to have a link into the private sector. The CCCO is weak on financial acumen but does have experience of working cross-sectorally across Government Ministries.

Option 2: Dispersed responsibility -
One way forward might be to disperse responsibilities in line with current arrangements but the danger then would be that there would be no drive and leadership. The new split between MoF and the MED affects the way development cooperation works responsibilities for everything down to signing contracts developing cooperation policy and coordinating donor activities is MED, including developing projects, coordinating with providers of resources. Then MoF does implementation and as MED has responsibilities for development cooperation so it could do the negotiations on climate finance mechanisms as well..

There is no great support for a new specialised unit for climate finance which is perceived as contrary to legislation and internal procedures. Climate finance is considered as a core development activity. It might be better to strengthen the CCCO as the Clean Air Fund is not regarded a relevant model, as it is a dedicated functional unit. Experience in the way the CDM worked has relevance, as this has a steering committee of other Ministries and projects going through the MoF. The Implementing Authority develops the proposal and proposes to the development committee, MEGD would be the executing agency.

Obviously, the MoF has a particular role to play in any new structure as it has responsibility for delivering budgeted funds and overseeing spending, whether from the country's own resources or development support.

Final authority might be shared between MoF and MEGD, but with the CCCO focusing on Technical leadership, for example with pursuing climate readiness, and that should be retained. A working group could be established which would include the CCCO +MOF+MED+MEGD and authority could lie between MOF and MEGD. There would be specific officers in charge. CCCO could develop the technical ideas, develop the concept notes give the overall policy direction but the Working Group/ Committee would have responsibility for decision-making. There would be a Director-General head who would be responsible for proposals. For activities funded from the National Budget there would need to be a would need a separate account in the Treasury. Funding would have to go through the Cabinet, and be linked into the responsible sectoral Ministries. Normal procedure is that each Minister has to sign for any project: MEGD would be the executing agency for the project, with MOF overall responsible for auditing/ financing. A central body would coordinate during decision-making and implementation- this coordinating agency would be MEGD. It seems possible to have two Ministries working together.

It was suggested that in the long term the Working Group and CCCO would merge. The CCCO would need new capacities to understand climate finance- and recognised overall that the GoM does need national capacity specialised on climate finance. For MoF one route might be to change its system so that desk officers worked on subjects and issues, rather than funders as that would enable it to build up capacity on climate change finance. Their officers would also require training- CC would be an additional function.

Option 3: MED lead
Obviously in the new set up MED is a critical Ministry as it has responsibilities to ensure that CC and green growth is incorporated into national strategies, it handles technological

innovation – of clear relevance to low carbon pathways- and it is also responsible for negotiating development cooperation. For this reason, it is understandable that issues about who has ownership of climate change need to be resolved, between MEGD and MED.

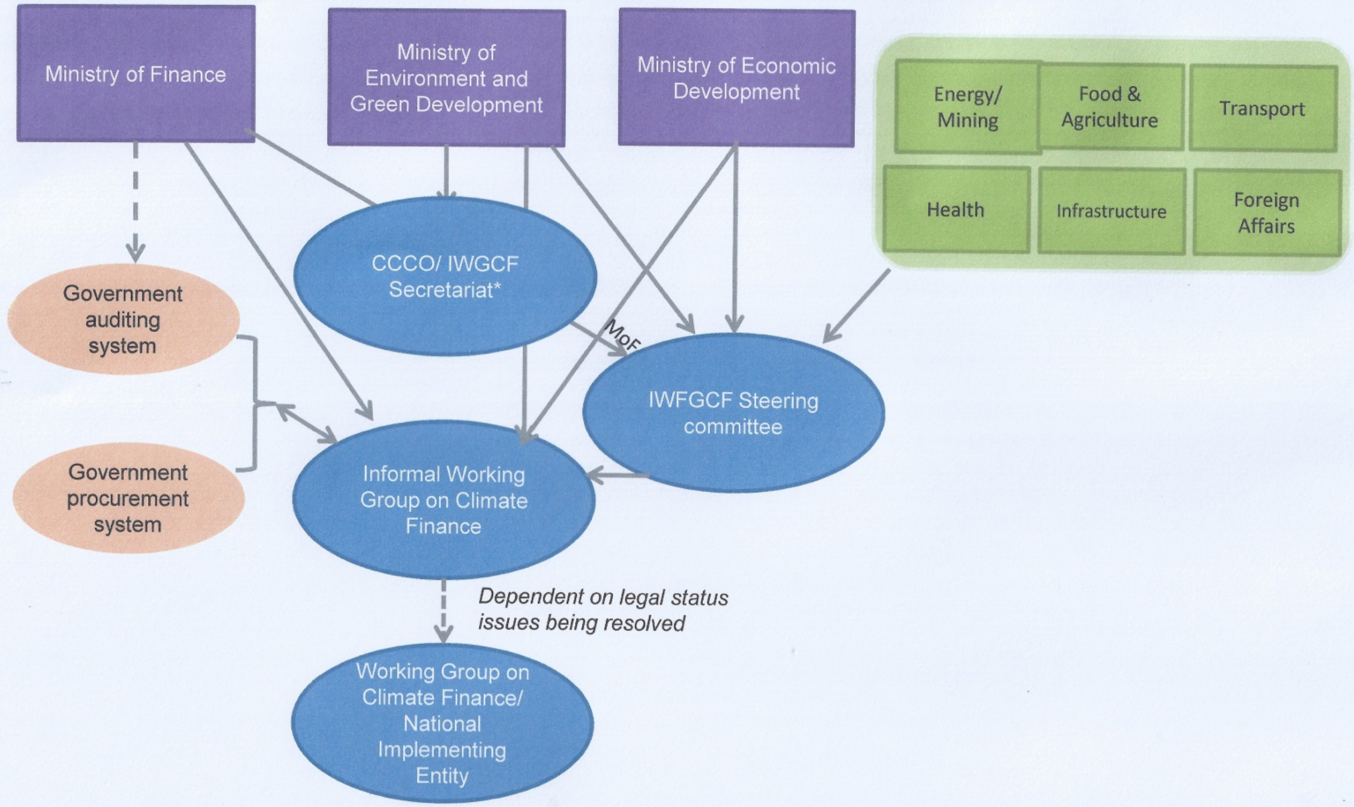
Again, proponents of the MED lead gave little support for a new climate finance institution which would not necessarily be independent in practice and take time to establish. The first step to establish an NIE would be to establish a Working Group but there was a question mark about its leadership, relating to the status of the lead- should it be at State Secretary level. The working group would comprise MED+MOF+MEGD + Energy+ Mining+ Agriculture + Industry +Construction+ Health. The role of the Working Group would be to review policies and regulations for future implementation- effectively a climate mainstreaming exercise across all sectors.

The Working group would support the Steering Committee. The Working group would be small (5-10 people) and sit in one place, but the Steering Committee would be larger. The working group would start as an informal arrangement between different Ministries.

It might make sense for the MED to have ultimate control because of MED's links to development assistance, and its cross-sectoral approach. Furthermore there is an argument that all the critical service dimensions for an NIE, according to international perspectives are a part of the new Ministry, know-how on project development, selection and prioritisation, implementation, M and E, audit and procurement, and links to national planning processes. MED undertakes liaison with donors, promotes economic development, negotiates loans and technical assistance. MEGD has got more capacity and knowledge on CC but a critical weakness in MEGD was seen as the financial management dimension.

The diagram overleaf indicates the core common elements in the three options, and brings together the suggested approach, outlined in the summary table in section 8.

Suggested route map for National Implementing Entity



*Climate Change Co-ordinating Office/
Informal Working Group on Climate Finance secretariat

Section 7: Assessment of overarching capacity development needs based on the requirements of a NIE [31]

This section examines overarching capacity needs, in relation to services which GIZ offers for delivery for climate finance readiness and institutional strengthening

The external environment on climate financing is tough and increasingly so. With capacities in most areas weak in Mongolia, by common consent the pathway to establishing a fully operating National Implementing Entity is likely to take several years. Capacity development needs careful unpacking and prioritising.

This report is being prepared for GIZ Mongolia. GIZ international has identified that support is needed in the following areas to prepare for climate finance:

- Planning climate finance readiness
- Strengthen national institutions
- Promote transparent and efficient spending
- Build knowledge
- Involve private sector

Various comments on capacity requirements have been made earlier in this report. However this framework provides a useful overarching checklist and will be briefly considered. Key capacity needs are included in the route map summary table included below.

- Planning climate finance readiness: participatory Climate Finance Action Plans are suggested, to examine more closely where capacity development is needed and what funds might be accessible. *This report itself is a quick-tool first stage effort towards a more comprehensive and participative approach*. *Support should be requested.* GIZ also recognises that identifying a national NIE is a highly complex process. *Support could be sought to sponsor a high level workshop, to provide mediation to facilitate inter-Ministerial coordination which would lead to the working group, as a first step to the NIE.*

- Strengthen national institutions: this involves establishing and strengthening national institutions, including financial and administrative standards for accreditation, good financial governance, monitoring and evaluation and best practice. GIZ also can organise practical support to help develop a project pipeline and supervising projects. *Much evidence in this report indicates that support is needed to develop projects into formats for accessing funds. More comprehensively a special package for improving the capacity of the CCCO should be developed. In addition training programme for other Ministries should be provided. It is possible ADB, UNDP and JICA could help support here. It would also be useful to establish a baseline to enable stock-taking at*

[31] GIZ (2012) Ready for Climate Finance- GIZ's Approach to Making Climate Finance Work

Froede, A. and C. Assman, (2012) Capacity development for direct access to climate finance- experience gained through GIZ's support work for national institutions. GIZ Internal Discussion paper. Eschborn, Germany.

Fu-Bertaux, X. and A. Froede (2012) Its not just the money: institutional strengthening of national climate funds: lessons learned from GIZ's work on the ground *fixed intervals covering institutional and policy development and information provision.*

- Promote transparent and efficient spending: GIZ can assist partner countries finance institutions to improve the transparency of financial flows and improve the absorptive capacity of national budgets. *The Government has started to take action in this area but possibly additional support would be welcomed.*

- Build knowledge: this element is designed to improve knowledge of the functioning of the international architecture tend to develop positions and participate actively in various negotiations. GIZ can provide training and capacity development for relevant tools, understanding of different types of funds, NAMAs and recent UNFCCC and GCF developments. These efforts can target governmental and non-governmental representatives. *Staff in the CCCO could benefit from understanding more about the whole range of possible, multilateral and bilateral funds in this challenging environment. In addition the development of a stronger capacity at international level, to support the Special Envoy, could help Mongolia's needs be met.* [32]

- Involve the private sector: because the financial resources needed to engage the global efforts to tackle climate change need the support of the private sector, GIZ can also help leverage private capital by support: analysis of the potential to access funds, supporting national businesses, especially SMEs; and providing technical advice to investors. *Because of the mining and energy sectors being the growth areas in the economy, better understanding of the role of the private sector is important particularly as there will be a Private Sector Facility in the Green Climate Fund. In addition understanding of Green Development can be strengthened.*

[32] UK support to Bangladesh for the negotiations has had a big impact over 10 years, it now speaks for the vulnerable countries group and now CDKN is supporting LDC countries in their negotiations

Section 8: Summary table: Climate Finance Readiness Roadmap for Mongolia

Activity	Sub- activity	Comment
Create Informal NIE structure and start activities	CCCO and GIZ Mongolia convene mediation workshop to agree first stage between MEGD, MOF and MED	Workshop to be facilitated by neutral party in novel venue
	Establish informal structure with working group and steering group (IWGCF)	CCCO work with Informal WG to establish Informal Working group on Climate Finance (IWGCF)
	Identify key staff, recruit and train for Secretariat for IWGCF	GIZ Mongolia to work with CCCO and IWGCF
	Preparation of Climate Finance Action Plan	Part of GIZ international's package. This plan needs to be prepared in a participatory manner
	IWGCF to review finance options for 2013-14, including CIF, and proceed with project submission of appropriate project for funding source	GIZ Mongolia have target for a new funded project in 2013 and this aim will keep momentum up
Create Formal NIE structure	IWGCF will take lead and organize necessary training and activities listed here	Work will need to look at potential legal structures and how procurement and audit will work
Capacity development for IWGCF and NIE long term	GIZ Mongolia to request GIZ international for all elements of climate readiness support (planning, institution strengthening, spending, knowledge management and private sector engagement)	Ongoing throughout Informal and Formal NIE stages (NB Important to establish early electronic project management systems and capacity for M and E)
Donor discussions	GIZ Mongolia to convene early meeting in 2013 with ADB, UND, World Bank, JICA, EU, Ausaid	This will identify interest with co-funding and agree a coordinated approach
Local government	IWGCF with work with UNDP and others to engage local government	Delivery vital at local scale
Private sector	IWGCF with work with MED to engage private sector on CC, particularly low carbon side	With the vital increases/ changes in energy the link on low carbon must be made
Civil society and NGOs	IWCGF will work with MEGD to open ongoing dialogues with civil society	For accreditation vital to have evidence of CS engagement and dialogues
Other supporting activities	Assessment of current climate relevant spend across Government to ensure coherent approaches	Undertake Climate Public Expenditure and Institutional review (CPEIR) methodology with UNDP

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Annex 1

List of Discussions, October 12-22 2012

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12.	Development Bank	Christoph Both, Consultant	976-70130513, c.both@dbm.mn
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Annex 2 List of climate funds: Source: ODI Climate Funds Update

Government agencies, development banks and programmes

- ***AFD - French Development Agency***
- ***AusAID - Australian Agency for International Development***
- ***BMZ - Federal Ministry for Economic Cooperation and Devet lopment***
- ***CCPO - Climate Change Projects Office***
- ***CIDA - Canadian International Development Agency***
- ***DFID - Department for International Development***
- ***EU REDDF - European Union REDD Facility***
- ***Ex-Im - Export-Import Bank of the United States***
- ***FFEM - French Global Environment Facility***
- ***GCCA - Global Climate Change Alliance***
- ***GIZ - German Technical Cooperation***
- ***JBIC - Japan Bank of International Cooperation***
- ***JICA - Japan International Cooperation Agency***
- ***KfW - German Development Bank***
- ***MIES - Interministerial Taskforce on Climate Change***
- ***MOFA - Ministry of Foreign Affairs***
- ***NORAD - Norwegian Agency for Development Cooperation***
- ***ODIN - Ministry of Foreign Affairs***
- ***OPIC - Overseas Private Investment Corporation***
- ***RECP - Africa-EU Renewable Energy Cooperation Programme***
- ***USAID - U.S. Agency for International Development***

Dedicated bilateral initiatives

- ***FSF - Fast Start Finance (Japan)***
- ***ICF - International Climate Fund (UK)***
- ***ICFI - International Climate Forest Initiative (Norway)***
- ***ICI - International Climate Initiative (Germany)***
- ***IFCI - International Forest Carbon Initiative (Australia)***

Multilateral funds

- ***AF - Adaptation Fund***
- ***APCF - Asia Pacific Carbon Fund***
- ***CBFF - Congo Basin Forest Fund***
- ***CTF - Clean Technology Fund***
- ***FCPF - Forest Carbon Partnership Facility***
- ***FIP - Forest Investment Program***
- ***GEEREF - Global Energy Efficiency and Renewable Energy Fund***
- ***LDCF - Least Developed Countries Fund***
- ***PPCR - Pilot Program on Climate Resilience***
- ***SCCF - Special Climate Change Fund***
- ***SCF - Strategic Climate Fund***
- ***SREP - Scaling-Up Renewable Energy Program***

UN and regional agencies, other acronyms

- ***AfDB - African Development Bank***
- ***AsDB - Asian Development Bank***
- ***CIF - Climate Investment Funds***
- ***EBRD - European Bank for Reconstruction and Development***
- ***EIB - European Investment Bank***
- ***FAO - Food and Agriculture Organization***
- ***UNDP - United Nations Development Programme***
- ***UNEP - United Nations Environment Programme***
- ***UNREDD - United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation***
- ***WB - World Bank***