Mongolia's Financial Landscape and Climate Actions

Results of the Diagnostic Study

August 21, 2024

Mongolia’s Economy and GHG Emissions

- Mongolia is the world’s 17th highest per capita contributor of greenhouse gases.

- Energy from Coal: 44.8% of emissions. The inefficiency of its coal-fired power plants, economic factors, including export revenue, the abundance of coal, and limited infrastructure for alternative energy sources further entrench coal's role in Mongolia's energy sector.

- Agriculture: 52% of emissions. Mongolia's agricultural GHG emissions are driven primarily by its large livestock population and the associated methane production, along with land use practices that lead to carbon release from soil and vegetation.

Climate Change Impacts on Mongolia

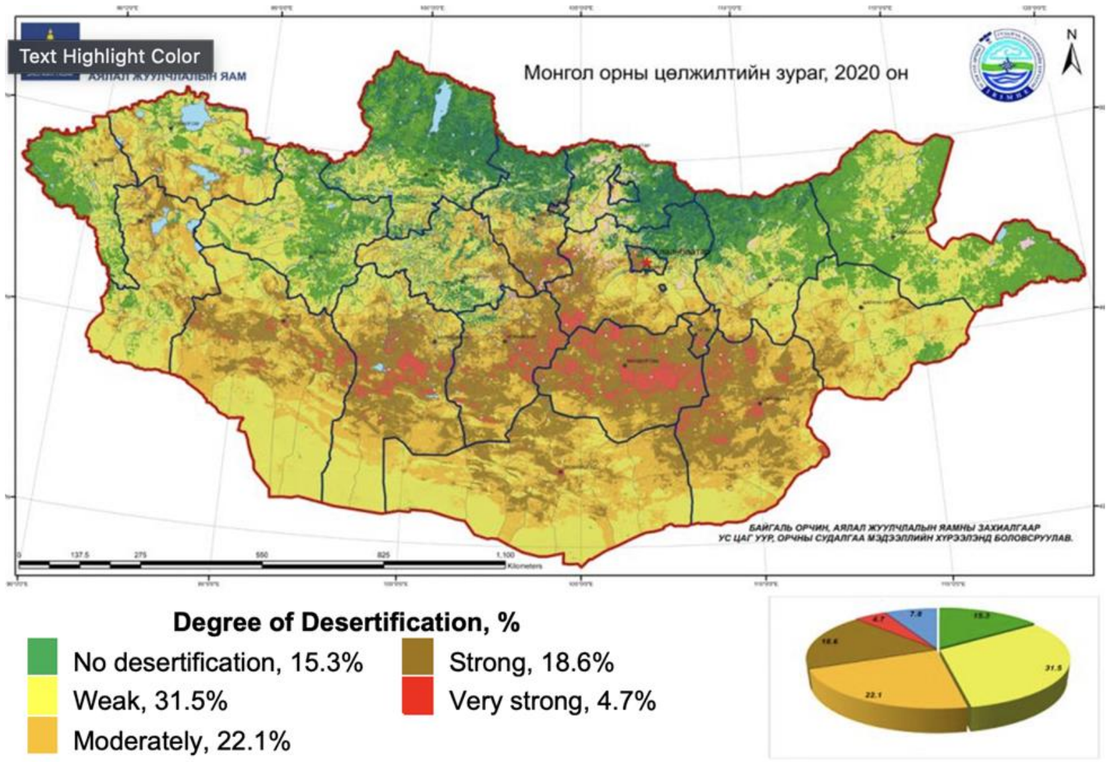
- **Mongolia's Disproportionate Climate Change Effects**:
  - Average temperature increase of 2.25°C over 80 years.
  - Significant warming and rainfall decline between 1940 and 2015.
  - Faces higher rates of warming than the global average.

- **Climate-Driven Hazards and Ecosystem Pressure**:
  - Chronic drought and increased dust storms due to recent climate changes.
  - Intensity of extreme climate-driven hazards (heat waves, drought, floods) expected to rise.
  - Long-term warming and drying processes may affect unique ecosystems and forest cover.

- **Need for Adaptation and Disaster Risk Reduction**:
  - Changes in climate threaten current agricultural crops and food security.
  - Poor communities face significant damage and loss without concerted disaster risk reduction efforts.

Challenges Faced by Mongolia

- Dependence on Coal: High reliance on coal for energy.
- Agricultural Practices: Emission-intensive agricultural practices.
- Economic Vulnerability: Susceptibility to global market fluctuations.
- Environmental Risks: Desertification increasing, 76.9% of the total land area as of 2020 and increasing.



Overview of the Study Process

Objective: Evaluate Mongolia's financial sector in the context of climate action.

Methodology (August 2023):
A systematic approach was adopted to gather information from a diverse range of stakeholders from the financial sector, including commercial banks, regulatory bodies, and green finance initiatives.

The consultation process involved a mix of interviews, meetings, a formal survey, and a roundtable event to gather comprehensive insights and feedback.

The team solicited the views of:
- Bank of Mongolia
- Financial Regulatory Commission
- Ministry of Economic Development
- Licensed financial institutions,
- Market participants
- Insurance companies, and others.

Feedback received highlighted:

- The need for clearer guidelines and more robust support systems for green finance initiatives.
- The importance of practical training and capacity building to effectively implement green finance principles.
- A call for greater government incentives and support for green projects to stimulate private sector investment.

Diagnostic survey

- Following the mission to Mongolia, the consulting team developed and administered a diagnostic survey tool to more formally assess the resilience of Mongolia's financial system to climate and disaster-related risks.

- The survey tool was intended to identify strengths and weaknesses in addressing climate risks and opportunities.

- The survey tool was divided into six key sections, each focusing on a specific aspect of climate resilience:
    1. regulatory environment assessment
    2. fiscal policy analysis
    3. market and product policies evaluation
    4. technology transfer and innovation
    5. knowledge and planning tools, and
    6. climate risk management assessment.

High-Level Conclusions

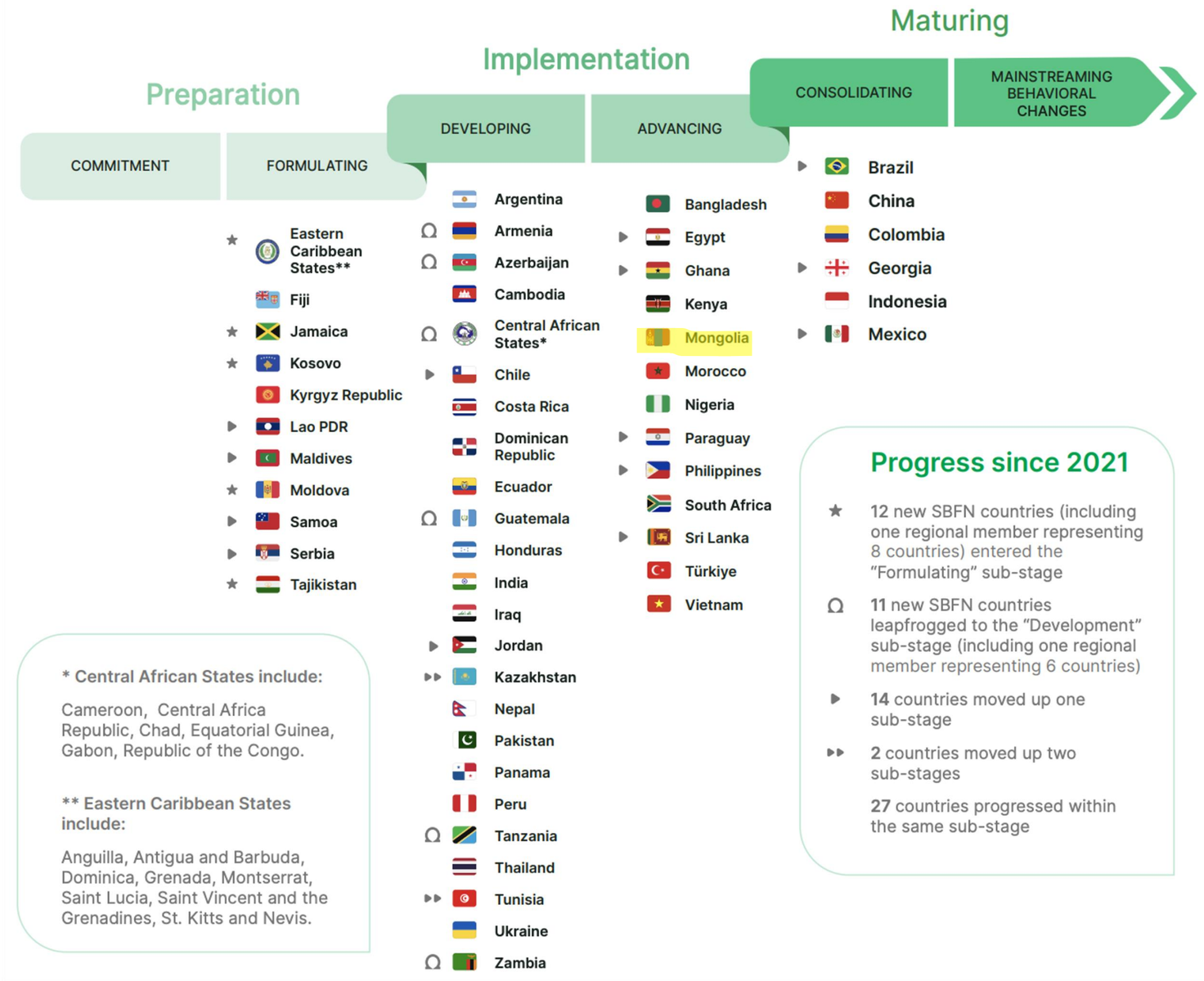
- **Progress in Green Finance:** Mongolia is advancing towards a sustainable economy through a strong regulatory framework for green finance.

- **Foundation for Growth:** The Green Taxonomy and National Sustainable Finance Roadmap are crucial for sustainable economic development.

- **Guiding Transition:** These initiatives steer the financial sector towards environmentally sustainable practices and regulatory innovation.

- **Challenges Ahead:** Gaps remain in terms of climate-related financial disclosure standards and credit guarantee mechanisms for green finance.

Progression Matrix of Sustainable Banking and Finance Network (SBFN)



High-Level Conclusions (2)

- The success of Mongolia’s climate finance policies hinges on concerted capacity building and policy coordination among FIs, government and international partners.

- Enhancing the ability of financial institutions and regulatory bodies to assess and mitigate risks and optimize capital utilization to support green projects is an important need.

- Essential components of building a resilient financial ecosystem capable of supporting Mongolia's green transition:
  - Internal structure review,
  - Identify technical assistance needs, and
  - Address human resources issues

High-Level Conclusions (3)

- Key drivers for Mongolia's shift towards a climate-resilient economy include the adoption of:
  - fiscal instruments like carbon pricing, green taxes, and subsidies for renewable energy
  - economic diversification strategies, and
  - promotion of technology adoption and innovation

- These elements are crucial in
  - broadening the economic base,
  - reducing dependency on carbon-intensive sectors, and
  - fostering sustainable growth.

High-Level Conclusions (4)

Aligning Mongolia with the Paris Agreement's mitigation goals requires:

- Investment Mobilization: Focus on attracting and facilitating green investments to drive sustainable development.
- Market Development: Develop markets that support and promote sustainable finance and green initiatives.
- Data-Driven Decision-Making: Use data to guide decisions, ensuring alignment with climate objectives.

High-Level Conclusions (5)

ADB's Role:

- Enhancing credit guarantees to lower risks for green investments.

- Providing advisory support for the establishment of Mongolia's Green Investment Bank.

- Facilitating workshops and knowledge sharing to build local capacity and expertise in green finance, while building public awareness and support.

Thank You!

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Mongolia’s Financial Landscape and Climate Actions 2/2

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August 21, 2024

Outline

- Main stakeholders

- Some specific issues and challenges: Recommended climate actions (including designated responsible parties)

Main stakeholders

- Financial Stability Committee:
  - BOM, MOF, FRC, Deposit Insurance Corporation (DIC)
- Bank of Mongolia (banks app. 90% of finance sector assets)
  - 10% of loan portfolio green/sustainable by 2030
- Banks, mainly GCF's DAEs (app. $7b blended finance, $1m PPF, $8m readiness):
  - XAC and TDB
- Financial Regulatory Commission (NBFIs app. 8% of finance sector assets):
  - 5% of loan portfolio green/sustainable by 2030
  - MSE (about 20% of GDP)
  - Insurance(?)
- MOF (app. 40% of GDP)
- Credit Guarantee Fund (not-for-profit, app. MNT 160 billion):
  - More than 50% provided by ADB

Some specific issues and challenges: Recommended climate actions – FSC/BOM/FRC

1. Disclosure (as per international standards):
   - Green taxonomy (2019)
   - SDG finance taxonomy (to replace Green taxonomy, 2025)
   - Quarterly reporting re: green lending products (since 2020/2022)
   - Disclosure as per international standards (i.e. GHG calculation):
     - Principles for Responsible Banking (PRB) – app. 500 signatories
     - Principles for Responsible Investment (PRI) – app. 4,000 signatories
     - Similar to SEC's "Enhancement and Standardization of Climate-Related Disclosures for Investors" – March 2024 amendment to Securities Act (1933) and Exchange Act (1934)
       - Since SEC's adoption, the New Orleans-based 5th U.S. Circuit Court of Appeals has ruled to put the amended rules on hold, after considering some large oilfield companies' lawsuit challenging them
     - IFRS – Climate-Related Disclosures apply to:
       - A) climate-related risks to which the entity is exposed:
         (i) climate-related physical risks; and
         (ii) climate-related transition risks; and
       - B) climate-related opportunities available to the entity.
     - BOM is working together with UNESCAP to introduce IFRS [S2] disclosure standards into BOM's regulatory framework
   - Golomt as a market-mover:

Some specific issues and challenges: Recommended climate actions – FSC/BOM/FRC

Golomt Bank is a founding signatory in the Principles for Responsible Banking (PRB), since September 2019. Golomt Bank is one of more than 500 members of the PRB. The bank also joined the UNEP-FI Banking Committee, PRB 2030 Core Group.

PRB framework consists of 6 principles designed to bring purpose, vision and ambition to sustainable finance. They were created in 2019 through a partnership between founding banks and the United Nations. Signatory banks commit to embedding these 6 principles across all business areas, at the strategic, portfolio and transactional levels. The Core group leads development of the Principles for Responsible Banking Framework 2030

Principle 1: ALIGNMENT

We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in SDG, the Paris Climate Agreement and relevant national and regional frameworks.

Principle 2: IMPACT & TARGET SETTING

We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

Principle 3: CLIENTS & CUSTOMERS

We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

Principle 4: STAKEHOLDERS

We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

Principle 5: GOVERNANCE & CULTURE

We will implement our commitment to these Principles through effective governance and a culture of responsible banking.

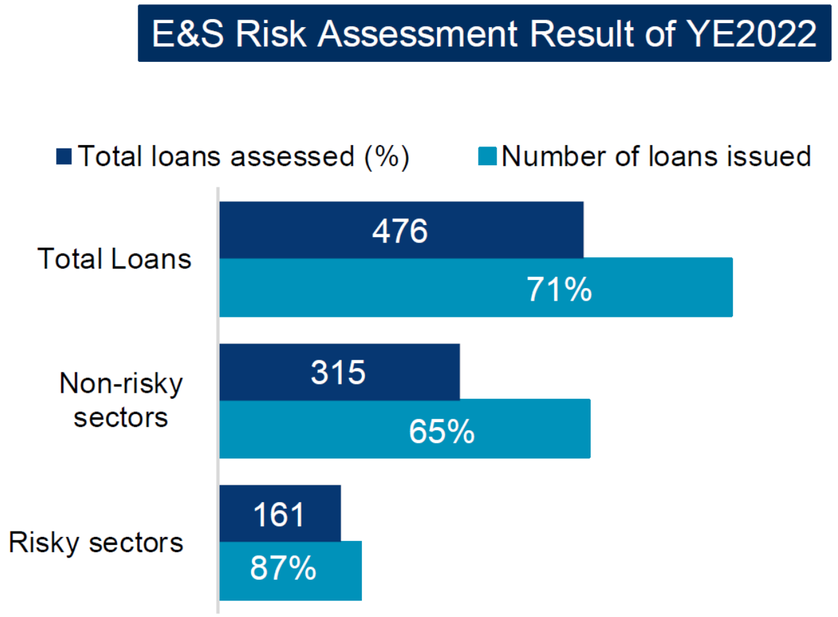
Principle 6: TRANSPARENCY & ACCOUNTABILITY

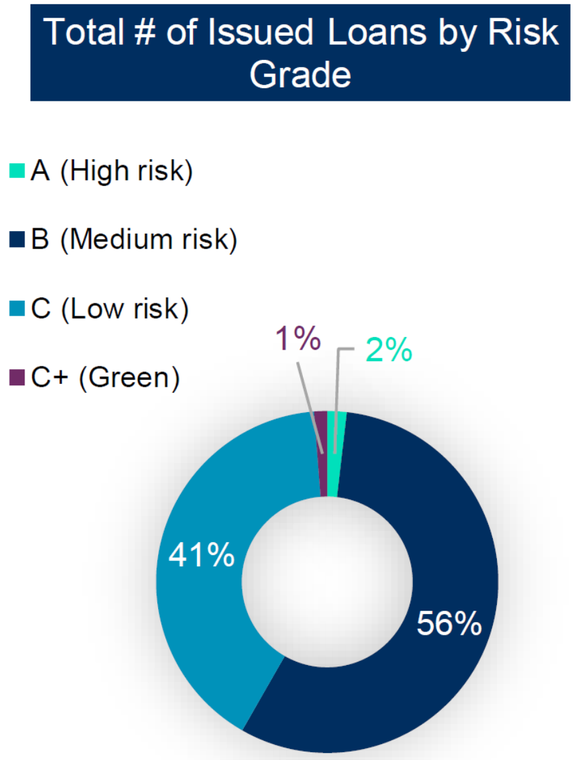
We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

Some specific issues and challenges: Recommended climate actions – FSC/BOM/FRC

As part of this pioneering practice, the Golomt Bank conducted environment Impact analysis of the bank's total business portfolio and identified climate and water as the significant impact areas that the Bank focus on. The Bank set up quantitative reduction targets on the significant impacts of the portfolio, such as:

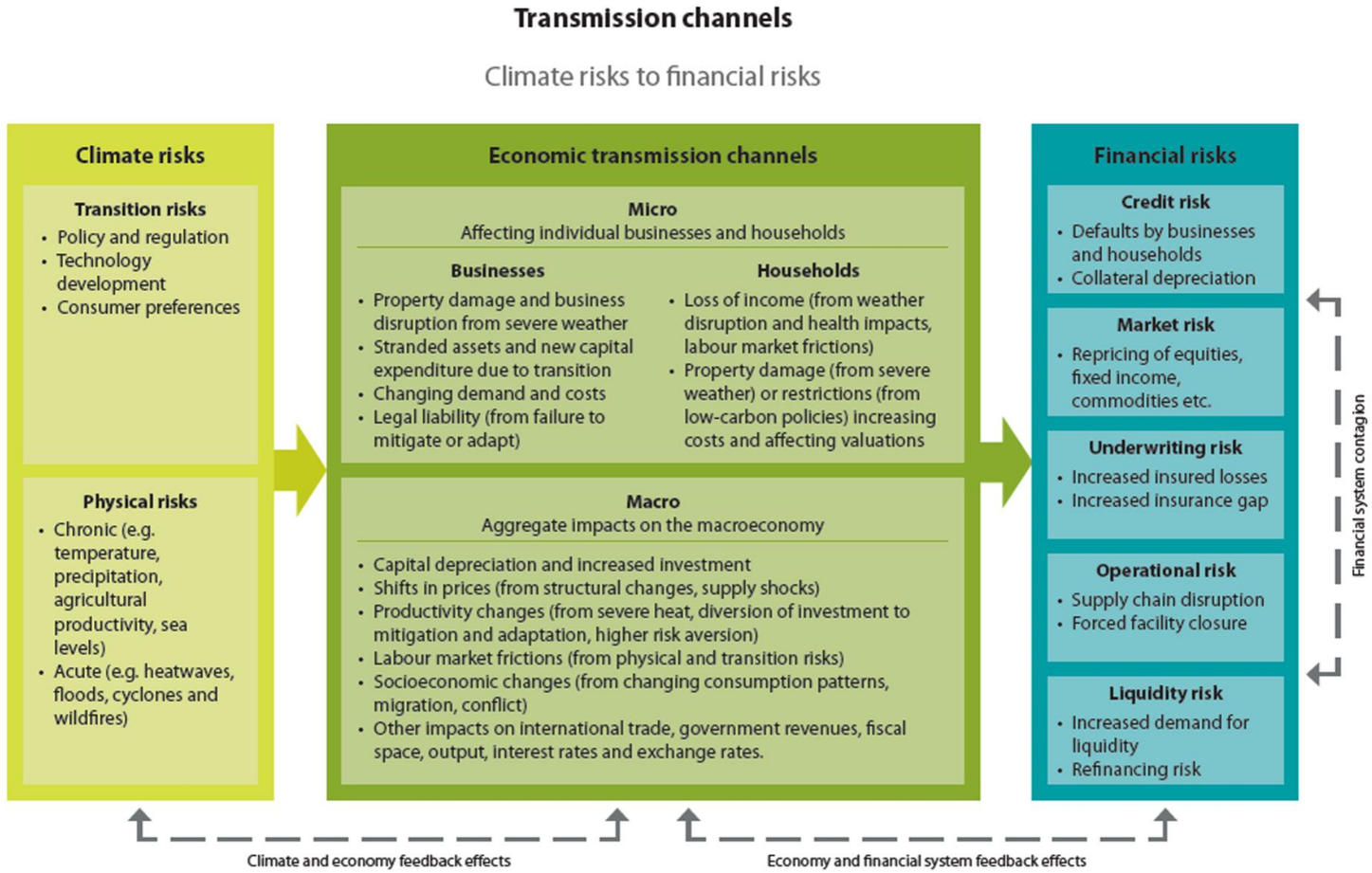
- Financed GHG reduction of carbon intensive portfolio by 32% from 624,541.43 tn CO2 by 2030; and
- Water consumption reduction of water intensive portfolio by 5% from 18.3 cubic meter by 2030. As of 31 December 2022, 71% of the bank's 667 business loans were assessed for general E&S risk. In addition, the total of 161 loans were assessed for detailed E&S risks, out of the bank's issued 185 loans in E&S risky sectors (e.g. construction, manufacturing, mining, infrastructure, petrochemicals).





Some specific issues and challenges: Recommended climate actions – FSC/BOM/FRC

2. Climate physical and transitional risks assessment (macroeconomic implications, both monetary and fiscal):



Source: Network for Greening the Financial System (NGFS)

Case study: Flood risks in UB

Some specific issues and challenges: Recommended climate actions – FSC/BOM/FRC

3. SPOs:
   - Green bonds are proven to be one of the most effective tools to catalyse climate funds worldwide – green bond use-of-proceeds to support MSMEs
   - Capacity of local verification agency is key:

Currently, in Mongolia, there is a lack of qualified local entities that are internationally recognised to produce independent third party SPOs and verifications and related sustainability related disclosure reports, in line with international best practices. Regional best practices are available. In Kazakhstan, the Astana International Financial Centre (AIFC)'s Green Finance Centre (GFC) provides independent third party SPOs and verifications to financial institutions in the country when they mobilise climate finance domestically and internationally, as an accredited entity of the Climate Bonds Initiative (CBI). Internationally recognised verification is an important assurance factor within the overall climate finance ecosystem for disclosure.

Kazakhstan's Agency for Regulation and Development of Financial Market (ARDFM) regulates the securities market. ARDFM is a signatory to Network for Greening the Financial System (NGFS).

Some specific issues and challenges: Recommended climate actions – FSC/BOM/FRC

4. Certified verifiable products:

– Centralised hub containing certified verifiable products:

In the Kyrgyz Republic, European Bank for Reconstruction and Development (EBRD) provided on-lending equivalent of about USD $54 million (as of 31 December 2021) to eligible public and private borrowers, who are to procure certified green products from a platform developed with grant supports provided from the Austrian Government (grant funding support provided from the Austrian Ministry of Finance: www.techselector/ts-en). In addition to about USD $54 million as green loan products, grants equivalent of about USD $7 million was provided. This contributed to: (i) Energy saving (185,496 Megawatt per hour/year); (ii) Reduction of CO2 emissions (66,227 tons/year); and (iii) Water saving (151,378 m3).

As of 31.12.2021	KyrSEFF I	KyrSEFF II	Total
Number of transactions	760	2 541	3,301
Total amount of loans issued (USD)	**22,137,227**	**32,231,513**	**54,368,740**
Total grants (USD)	**3,109,792**	**4,087,515**	**7,197,307**
Energy saving, Megawatt per hour / per year	109,866	75,630	185,496
Reduction of CO2 emissions, tons / year	31,681	34,546	66,227
Water saving, m3	-	151,378	151,378

Verification and measuring capacities of a qualified private company were strengthened to act as an independent third party to partner with those eligible banks and financial institutions of EBRD. The company developed a scoring system acceptable to EBRD, which is the basis to select qualified green products. The platform from which the qualified climate smart technologies are procured is developed with support of the Federal Ministry of Finance, Austria. The government of the Kyrgyz Republic is in the process of creating its own country-specific green platform using GCF funding.

Some specific issues and challenges: Recommended climate actions – Banks

5. GCF full proposals and readiness:

– DAEs vs. international AEs:

PPFs	Total USD (including co-financing)	Accredited entity	Approval date
Mini-grid/off-grid Solution for Ger Area	914,425	XacBank	16-Apr-19
Support for the Establishment of the Mongolia Green Finance Corporation	348,964	XacBank	17-Dec-18

Some specific issues and challenges: Recommended climate actions – Banks

Readiness	Total USD (including co-financing)	Delivery partner	Approval date
Supporting Green Regional Development in Mongolia	200,860	Trade and Development Bank	02-Jul-23
Strengthening Institutional and Technical Capacity to Support NDC Implementation and Mainstreaming Climate Change into Subnational Development Planning in Mongolia	2,798,845	Global Green Growth Institute	31-Dec-21
Upscaling Sustainable and Green Finance Practices in Mongolia	291,772	Trade and Development Bank	29-Oct-21
Strategic frameworks support for Mongolia	296,300	XacBank	24-Dec-19
NDA strengthening, country programming, strategic frameworks and entity support for Mongolia	300,000	XacBank	18-Dec-19
Strategic Frameworks support for Mongolia	291,784	International Finance Corporation	10-Jan-19
Adaptation Planning support for Mongolia	2,895,461	United Nations Development Programme	01-Jul-18
Strategic Frameworks support for Mongolia	368,000	United Nations Environment Programme	29-Jan-18
Readiness grant agreement for Mongolia (MOL-RS-001)	300,000	XacBank	16-Aug-17
Strategic Frameworks support for Mongolia	350,000	Global Green Growth Institute	05-Jun-17
NDA Strengthening and Country Programming support for Mongolia	300,000	XacBank	22-May-15

Some specific issues and challenges: Recommended climate actions – Banks

Full funding	Total USD (including co-financing)	Accredited entity	Approval date
Project GAIA ("GAIA")	1,482,500,000	MUFG Bank, Ltd. (MUFG)	24-Nov-23
Sustainable Renewables Risk Mitigation Initiative (SRMI) Facility (Phase 2 Resilience focus) [SRMI-Resilience]	1,119,000,000	World Bank	11-Apr-23
Mongolia: Aimags and Soums Green Regional Development Investment Program (ASDIP)	735,000,000	Asian Development Bank	06-Apr-21
Mongolian Green Finance Corporation	49,654,000	XacBank	09-Dec-20
Improving Adaptive Capacity and Risk Management of Rural communities in Mongolia	79,301,276	United Nations Development Programme	13-Nov-20
Climate Investor One	821,700,000	Dutch entrepreneurial development bank FMO	28-Nov-18
Energy efficient consumption loan	21,500,000	XacBank	28-Nov-18
Green cities facility	674,000,000-744,000,000*	European Bank for Reconstruction and Development	28-Nov-18
Ulaanbaatar green affordable Housing and resilient Urban Renewal Project (AHURP)	544,000,000	Asian Development Bank	27-Mar-18
Renewable energy program #1: Solar	18,434,766	XacBank	06-Nov-17
Business loan programme for GHG emissions reduction	60,000,000	XacBank	22-Mar-17
EBRD sustainable energy financing facilities	1,538,500,000	European Bank for Reconstruction and Development	22-Mar-17

Some specific issues and challenges: Recommended climate actions – MOF

6. Green public procurement:

– Public budget (taxpayers' money) is an important catalyst:

The Carbon Neutrality Framework Act was ratified by the Republic of Korea's National Assembly in 2023. Line ministries and agencies are mandated to form evaluation committees, consisting of independent third party technical experts. The evaluation committees select and award those innovative products and services offering climate smart solutions in their respective sectors. "Green Certification" technologies are those that "minimise emission of greenhouse gases and pollutions, such as greenhouse gas reduction technology, energy efficiency technology, a clean product technology, and resource recycling and environmentally friendly technology (related fusion technologies), by saving and effectively using energy and resources throughout the entire span of social and economic activities". "Green Certification" innovative technologies tend to cover more detailed and broader green activities, than the ones included in the revised green taxonomy, which is legally non-binding. "Green Certifications" are provided for qualified innovative climate smart products valid until expiry (majority valid for 3-6 years).

Currently, there are about 1,199 innovative products certified with "Green Certification", according to the Green Certification System Operation Guidelines of the Carbon Neutrality Act, issued majority by the evaluation committees setup by :

1. Ministry of Agriculture, Food and Rural Affairs;
2. Ministry of Environment;
3. Ministry of Land, Infrastructure and Transport;
4. Ministry of Oceans and Fisheries;
5. Ministry of Science and ICT;
6. Ministry of SMEs and Startups; and
7. Ministry of Trade, Industry and Energy

Some specific issues and challenges: Recommended climate actions – MOF

The evaluation committees confirm green technology products that are already commercialised utilising green technologies and is certified by the Article 32.2 of the Carbon Neutrality Framework Act (2023).

Confirmation criteria (criteria below shall all be satisfied):

- Possession of Green Technology Certificate
- Verification whether the certified green technology significantly contributes to the product function's manifestation
- Availability of applied product (Model)

Product Manufacturing Possibility:

- Availability of production facilities (Factory, etc.)
- (In case of OEM manufacturing products, documentary evidence is required)

- Continuous production possibility of the applied product

Quality Management:

- Availability of quality management certificates (Ex. ISO) or other documentary evidence

- Continuous production quality management system

Product Capacity:

- Test certification from an external organization (Certification from the respective organization is also accepted)

- the applied product capacity shall satisfy the technical standards of the Green Technology Certification

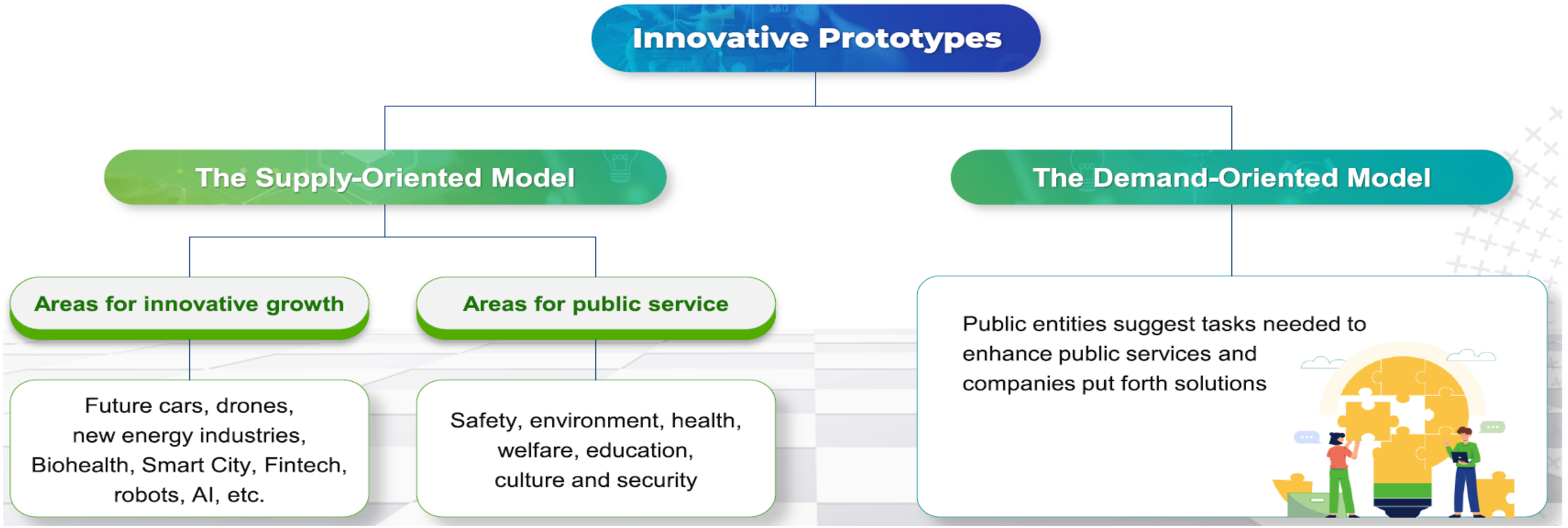
Members of the Evaluation Committee shall meet the requirements of any of the following:

1. Industry: Ph.D. or Master's (Bachelor's) degree holder with at least five (5) years of experience in the field, or executive at the director level or above;
2. Academic: full-time instructor or above at a two-year college or university;
3. Researchers: Ph.D. or Master's (Bachelor's) degree holder with at least 5 years (7 years) of experience in the field;
4. Government employees: government employees at grade 5 and above; or
5. Recognised by the head of the assessment organization as having qualifications equivalent to 1 through 4.

Some specific issues and challenges: Recommended climate actions – MOF

Korean government targets at least 1.7% of public procurement for central government entities, 1% for local government entities

- Goods and services (above Technology Development Level 7), right before commercialization, designated by the PPS administrator after being evaluated for innovation and public service
  - Divided by 'Demand-Driven' and 'Supply-Driven'



Some specific issues and challenges: Recommended climate actions – CGF

7. Credit Guarantee:

– Green guarantee products to be developed to benefit MSMEs is key

Project name	Guarantees provided		Borrowers	
	amount (MNT million)	%	No.	%
Loans to support job creation	28,456.4	17.8%	208.0	18.6%
Provincial small and medium industry and household business service support fund	49.2	0.0%	4.0	0.4%
Asian Development Bank project MON-3338	83,801.6	52.4%	411.0	36.7%
ADB job creation project	21.0	0.0%	2.0	0.2%
ADB Agriculture and Rural Development Support Project	300.0	0.2%	1.0	0.1%
Project of the Ministry of Construction and Urban Development	250.0	0.2%	1.0	0.1%
JICA project	9,711.5	6.1%	56.0	5.0%
Small and medium industry development fund project	7,864.8	4.9%	94.0	8.4%
Mongolia 888 projects	1,329.0	0.8%	10.0	0.9%
MonSeff project	420.0	0.3%	1.0	0.1%
Capital small and medium industry development fund	412.2	0.3%	9.0	0.8%
Organic Mongolia program	3.0	0.0%	1.0	0.1%
The project to stabilize agricultural production of the Ministry of Industry and Agriculture	1,626.2	1.0%	5.0	0.4%
Project of the Ministry of Industry and Agriculture	6,933.4	4.3%	67.0	6.0%
Development Bank	2,499.9	1.6%	1.0	0.1%
Employment Promotion Fund	161.0	0.1%	54.0	4.8%
Bank	15,953.3	10.0%	193.0	17.2%
Non-bank financial institutions	97.0	0.1%	3.0	0.3%

Summary

Reform	Sector	Activities	Timeline	Activity lead	Potential partners
PILLAR 1: E&S RISK MANAGEMENT					
E&S Risk Policies and Regulations	Overall monetary framework	Assessment of climate related transitional and physical risks, including value-chain analysis (macro level monetary framework, including inflationary implications) [Best practice: ADB's Climate Risks and Vulnerability Assessments, ADB's Principles of Climate Risk Management for Climate Proofing Projects, ADB's Guidelines for Climate Proofing Investment (sector specific), etc.]	Short term (immediate)	Financial Stability Committee (FSC)	ADB, and ___
		Quarterly/annual reporting on key climate related risks and mitigation tools [Best practice: Sector-wide assessments using scenario based cost-benefit analysis for key sectors, such as: (i) Livestock; (ii) Agriculture (crop production and food security); (iii) Water; (iv) Forest ecosystems; (v) Biodiversity; (vi) Natural disaster management; (vii) Public health; and (viii) Social welfare (vulnerable community)]	Short term (immediate)	Financial Stability Committee (FSC)	ADB, and ___
		Develop and approve guidelines on Climate related risks assessment for financial institutions and budgetary entities [Best practice: Country specific guidelines, based on the outcome sector-wide assessments]	Short term (immediate)	Financial Stability Committee (FSC)	ADB, and ___

Summary

Reform	Sector	Activities	Timeline	Activity lead	Potential partners
	Banking	Develop and approve mandatory disclosure standards on climate related risks (regular disclosures): Commercial banks [Best practice: Principles for Responsible Banking (PRB)]	Short term (immediate)	Bank of Mongolia (BOM)	ADB, and ___
	Non-bank	Develop and approve mandatory disclosure standards on climate related risks (regular disclosures): NBFIs, SCCs, Insurance companies, etc. [Best practice: Principles for Responsible Investment (PRI)]	Short term (immediate)	Financial Regulatory Commission (FRC)	ADB, and ___
	Capital market	Develop and approve mandatory disclosure standards on climate related risks (regular disclosures): Listed entities [Best practice: US's SEC "Enhancement and Standardization of Climate-Related Disclosures for Investors" – March 2024 amendment to Securities Act (1933) and Exchange Act (1934)]	Short term (immediate)	Financial Regulatory Commission (FRC), and Mongolian Stock Exchange (MSE)	ADB, and ___
PILLAR 2: GREEN FINANCE FLOWS					
Green Bonds	Overall financial sector	Establish and strengthen the institutional capacities of a local verification agency (preferably a public entity, involving technical knowledge of academia, civil society, and private sector participants) [Best practice: Green Finance Centre (GFC), Kazakhstan]	Short term (immediate)	Financial Stability Committee (FSC)	ADB, and ___
	Blended Finance	Develop a pipeline of GCF readiness projects for short term, in partnership with delivery partners [Best practice: Climate Finance Centre (CFC) and ARIS, Kyrgyzstan]	Short term (immediate)	Financial Stability Committee (FSC), Direct Access Entities (DAEs), and Delivery Partners (DPs)	ADB, and ___

Summary

Reform	Sector	Activities	Timeline	Activity lead	Potential partners
PILLAR 3: ENABLING ENVIRONMENT					
Public procurement	Greening public procurement	Develop green certificate mechanism/framework (involving technical knowledge of academia, civil society, and private sector participants) [Best practice: South Korea's Carbon Neutrality Framework Act, and Kyrgyzstan's MOF]	Short term (immediate)	Ministry of Finance (MOF)	ADB, and ___
Guarantee (not limited to credit guarantee)	De-risking	Expand Credit Guarantee Fund (CGF)'s coverage and develop green guarantee and investment products [Best practice: South Korea's Korea Credit Guarantee Fund (KODIT]]	Short term (immediate)	Credit Guarantee Fund (CGF)	ADB, and ___
Roadmap	Overall sustainable finance framework	Update "National Sustainable Finance Roadmap"	Short term (immediate)	Financial Stability Committee (FSC)	ADB, and ___