

SUSTAINABLE BANKING NETWORK (SBN)

# COUNTRY PROGRESS REPORT

ADDENDUM TO SBN GLOBAL  
PROGRESS REPORT

MONGOLIA

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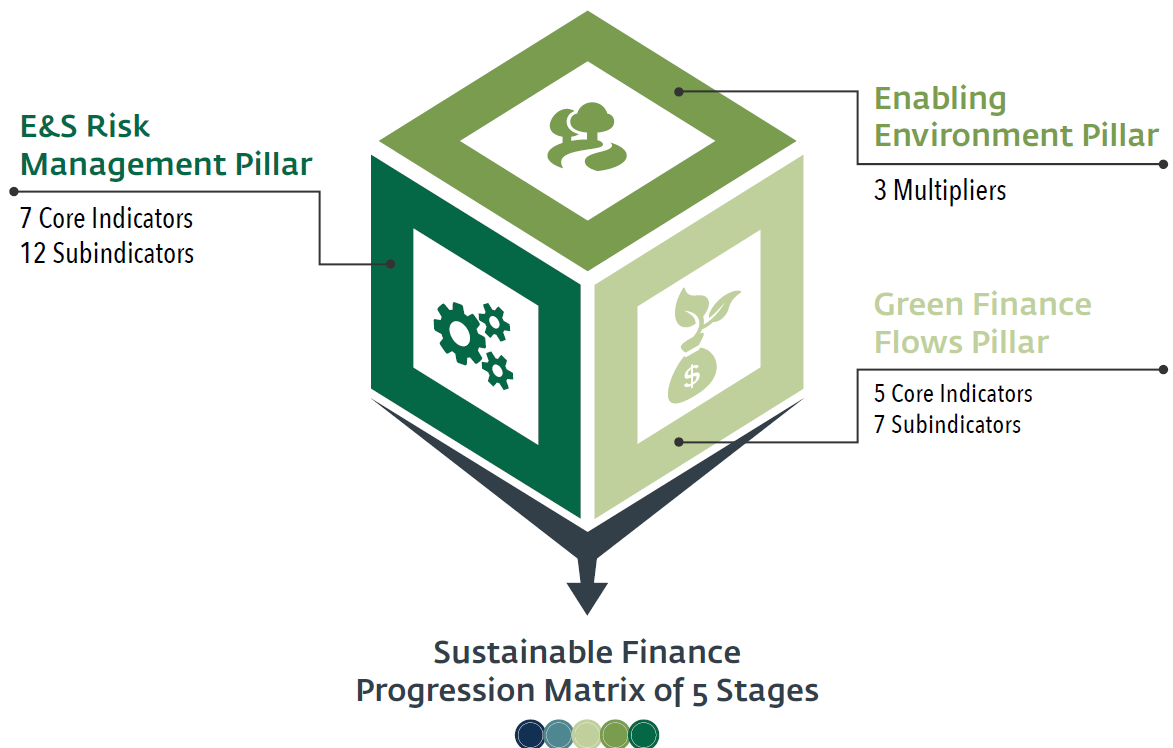
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# 1. Introduction

**Market-based sustainable finance initiatives led by members of the Sustainable Banking Network (SBN) have made significant progress in directing the financial sector toward sustainability.** Established with International Finance Corporation's (IFC) support in 2012, SBN represents a community of financial sector regulators and banking associations from 34 emerging markets. SBN members now represent over US\$42.6 trillion in banking assets, accounting for more than 85 percent of the total banking assets in emerging markets.

**The SBN Global Progress Report is based on a unique measurement framework, the first of its kind to assess sustainable finance initiatives across emerging markets.** The SBN Global Progress Report for the first time presents a systematic view of progress on sustainable finance among emerging economies that are represented by SBN. A rigorous measurement framework was developed and agreed on by members. The SBN Measurement Framework draws on international best practice as well as SBN members' experiences and innovations. This framework will be continuously applied to measure progress annually.



The Global Progress Report draws on the findings of **15 individual country progress reports prepared for members, including this report.** These 15 countries, with US\$38.3 trillion in banking assets, account for more than 76 percent of emerging market banking assets.

**Country-specific progress reports were prepared for 15 SBN members with sustainable finance initiatives.** These reports contain a thorough analysis of the country's policy or principles in relation to the environmental and social (E&S) risk management and to the green finance flows, as well as a contextual analysis of the local policy landscape and the enabling environment. Country reports detail each country's good practice and highlight areas of focus in order to support and encourage members to further accelerate sustainable finance.

**All SBN member countries are advancing sustainable finance at differing stages of development.** Countries are mapped to five different stages of their development, from initiating to mature.

**SBN Progression Matrix with Assessment Results, based on progress up to and as of June 2017**



\* Pakistan launched its policy in October 2017, after the cut off date of June 2017 for the report

## 2. Executive Summary

In Mongolia, the environmental and social (E&S) regulatory environment is quite developed and ambitious. The Mongolian Bankers' Association (MBA) launched the **Mongolian Sustainable Finance Principles** (the Principles) in 2014 to address E&S issues and help banks implement sustainable finance practices.

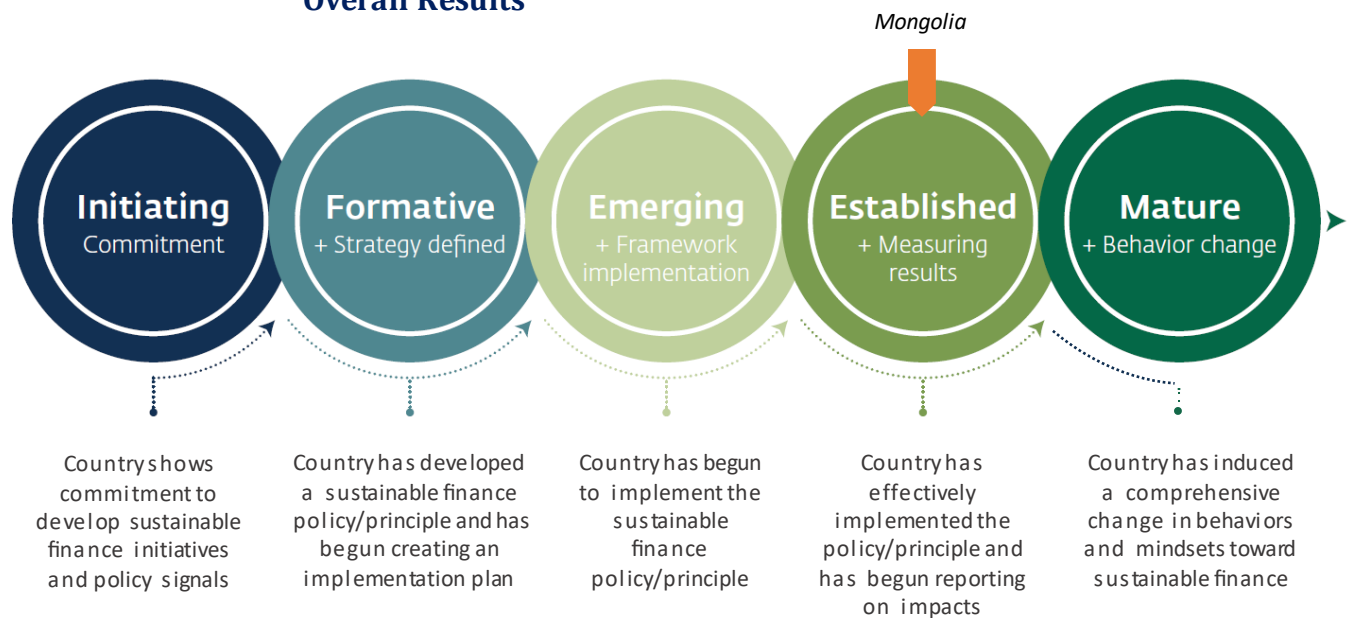
Even though the principles are not mandatory, all banks in the country have implemented them, which is a testimony to their commitment to E&S issues and fosters harmonized practices on green finance across the country.

In addition to the E&S banking framework, Mongolia enacted an **Environmental Impact Assessment Law** in 2012, and launched a **Green Development Strategy** in 2014 that has an impact on the banking sector's activities.

Mongolia received good assessment results on the E&S Risk Management Pillar, and the Mongolian environmental and social risk management (ESRM) framework is one of the most comprehensive frameworks among SBN members. Specific guidelines have been issued to provide further guidance regarding the four key sectors for the national economy, and MBA provides tailored and comprehensive training programs for banks.

Further development of green finance would represent a significant opportunity for Mongolia. Firstly, the framework could harmonize definitions regarding green finance products and could help with gathering quantitative information and data on green finance flows. The government and MBA will soon launch the Mongolian Green Credit Fund (MGCF), a national green finance vehicle that will bring long-term financing to projects and companies that stimulate green growth in the country. It should be operational by the end of 2018.

### Overall Results



## Good Practice

- The Mongolian Sustainable Finance Principles are the result of a joint effort by the MBA, the government (the then Ministry of Environment, Green Development and Tourism), and the banking regulator (the Bank of Mongolia).
- The commitment to these principles is voluntary, but all 15 banks in the country have chosen to apply them.
- The Principles are accompanied by guidance notes on their implementation, which include references to relevant international standards and good practice. The MBA provides trainings that are customized to specific roles in a lending process or in a bank.
- The MBA has developed specific guidelines for four key sectors (agriculture, construction, manufacturing, and mining) to help assess potential E&S risks and opportunities in these sectors.
- The MBA established a sister entity in December 2017, named the Mongolian Sustainable Finance Association, with a mandate to promote sustainable finance in the entire financial sector.

## Areas for Improvement

- More detailed and more operational guidance, specifically regarding ongoing monitoring and reporting, could be developed that could in turn be applied to all sectors of the economy.
- The Mongolian economy could benefit from developing a framework of definitions and methodologies to help banks to develop green finance flows.
- The Principles could be expanded to other financial activities (such as insurance or asset management).



## CONTEXT:

# 3. Enabling Environment

### Country Profile

In recent decades, the Mongolian political and economic landscape has significantly evolved: the country has become a democracy, and its gross domestic product (GDP) has tripled. Mongolian economic growth relies mainly on four key sectors of the economy: agriculture, construction, manufacturing, and mining. These sectors significantly affect the country's environment and its population's quality of life.

The main E&S issues in the country are pollution (air, soil, and water), resource depletion, desertification, community health and safety, and cultural and natural heritage loss. Air pollution, in particular, is a growing challenge that has a major impact on the well-being of Mongolians.

The government adopted the Environmental Impact Assessment Law in 2012 to address these issues, and in reaction to the increasing E&S concerns of China, its main economic partner. It also approved the Green Development Strategy in 2014. It launched an Action Plan for the strategy's implementation in 2016. By signing the Paris Agreement on Climate Change, Mongolia has committed to reducing its energy consumption and waste generation levels, and has set quantitative targets, in order to achieve its Intended Nationally Determined Contribution objectives by 2030.

The Mongolian financial sector's investments are highly concentrated in Mongolia's four key economic sectors, which represent 90 percent of the banking sector's portfolio. The country's top four banks represent up to 90 percent of the Mongolian banking sectors' assets.

## Background and Strategy of the Sustainable Banking Framework

The **Mongolian Sustainable Finance Principles** were launched in 2014. All 15 of Mongolia's banks support the initiative and are committed to its principles, which increases their leverage and potential impact and counteracts their voluntary nature.

The Principles' ambition is emphasized by the wide scope of application (covering all the financial institutions' activities) and the release of **four sector-specific guideline documents** to accompany them, one for each of Mongolia's four key economic sectors. The industry-specific guidelines provide financial institutions with additional, detailed and operational guidance on the implementation of the Mongolian Sustainable Finance Principles for activities related to these sectors, in terms of E&S risk. The **E&S Policy Framework Template** has been released to assist financial institutions (FIs) in designing their own customized frameworks.

The success of the E&S framework is mainly because of the continuous effort made by the MBA to raise awareness among Mongolian banks and convince them of its necessity.

To further support the Green Development Strategy through the promotion of green finance, the MBA is collaborating with the Mongolian government and international institutions (the Partnership for Action on the Green Economy, the UNEP Finance Initiative, and the Global Green Growth Institute [GGGI] to establish the **Mongolian Green Credit Fund**, a national financing vehicle that would promote clean, green, resource-efficient, and socially inclusive projects. All relevant legal and market assessments of the fund have been conducted. Through the support of GGGI, the MGCF has secured readiness funding from the Green Climate Fund (GCF) to help set up the fund and enable it to become fully operational.

## Support from Regulators

The Central Bank of Mongolia, along with the Ministry of Environment and Tourism, has been supporting the MBA's initiative since its launch in 2014. Since then, the Ministry has co-organized the annual Mongolian Sustainable Finance Forum, a prominent national gathering of more than 500 high-level representatives from the public, private, and international organizations. The event aims to discuss the progress and challenges of the Mongolian Sustainable Finance Initiative (MSFI), as well as next steps and future partnership opportunities. In 2015, the Central Bank of Mongolia issued an official directive requiring all banks to report on the implementation of the Sustainable Finance Principles in their annual reports, starting in 2016.

The Central Bank of Mongolia and the MBA are currently discussing the development of an official framework for the review and supervision of the implementation of the Sustainable Finance Principles by Mongolia's banks. A joint working group has been established to work on this issue. Furthermore, financial sector stakeholders with the support of IFC and UNEP Inquiry are working on the development of a national sustainable finance roadmap that will include actions to develop banking, microfinance, insurance and capital market sustainable finance policies and regulations.

## RISK:

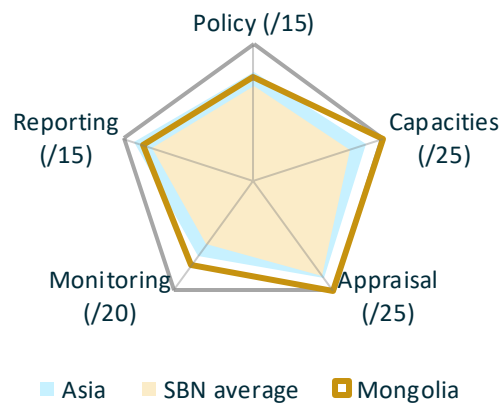
# 4. Environmental and Social Risk Management

The Mongolian banking sector is highly concentrated. Out of the 14 domestic banks (13 commercial banks and 1 development bank), the top four banks represent 90 percent of assets. Nevertheless, all of Mongolia's banks have voluntarily committed to implementing the Sustainable Finance Principles, which include requirements for a comprehensive E&S appraisal review and monitoring process. The **E&S Policy Framework Template** is a document of 15 pages detailing how FIs should set up their own framework. The template covers most of the necessary features for a comprehensive E&S risk management system.

Similarly, specific guidance has been developed for four key sectors of the economy (agriculture, construction, manufacturing, and mining), including a description of E&S risks and requirements with regard to ongoing monitoring and reporting.

A noteworthy initiative from the MBA is the development of training courses for the implementation of the framework. Customized training material has been developed, targeting various players, such as environmental, social, and governance (ESG) officers, risk analysts, loan officers, branch managers, lawyers, and Credit Committee members. The MBA frequently organizes onsite training, focusing on one of the four key sectors of the economy, and shows banks how to perform site visits. It is currently developing a sustainable finance e-Learning platform with the aim of training all 14,000 bank staff.

The framework in Mongolia could be improved by enhancing transparency through reporting and disclosure, and by encouraging banks to align their strategies with the country's climate commitments. Finally, the existing framework could be extended to other financial activities.



Subpillars	Comments on good practice and areas for improvement
Policy	<ul style="list-style-type: none"> <li>- The Sustainable Finance Principles strongly encourage banks to adhere to relevant international standards in the design of their E&amp;S policy.</li> <li>- The Principles should be applied to all bank activities and clients. However, details of their implementation by activity (such as project finance or asset management) are not provided.</li> <li>- Banks are not required to formalize a climate-related strategy.</li> </ul>
Capacities	<ul style="list-style-type: none"> <li>- The Principles emphasize the need for banks to provide resources, tools, and training to help their staff build and maintain capacity to manage E&amp;S risk.</li> <li>- The E&amp;S Policy Framework Template details the roles and responsibilities to be developed for the application of the framework. The training provided by the MBA is tailored to each participant in the lending decision-making process.</li> </ul>
Appraisal	<ul style="list-style-type: none"> <li>- Banks are required to screen and categorize projects according to their level of E&amp;S risk and, for the four key economic sectors, if needed, include conditions and covenants in the transaction documentation.</li> </ul>
Monitoring	<ul style="list-style-type: none"> <li>- Banks are not only required to conduct sector-based portfolio reviews, but they must also monitor and report on their clients' implementation of the agreed Environmental and Social Action Plan (ESAP) and E&amp;S risk management plans relating to investment in the four key economic sectors.</li> <li>- Going forward, the framework could require banks to perform regular onsite visits of high-risk projects (not only during the project appraisal stage) and monitor climate-risk exposure at the portfolio level.</li> </ul>
Reporting	<ul style="list-style-type: none"> <li>- Banks must publish an annual "sustainability report" covering their progress on each of the eight Principles, which must be consistent with international best practice in terms of reporting. The MBA has issued a reporting template.</li> <li>- To increase transparency and accountability, banks could implement and report on a stakeholder feedback procedure.</li> </ul>

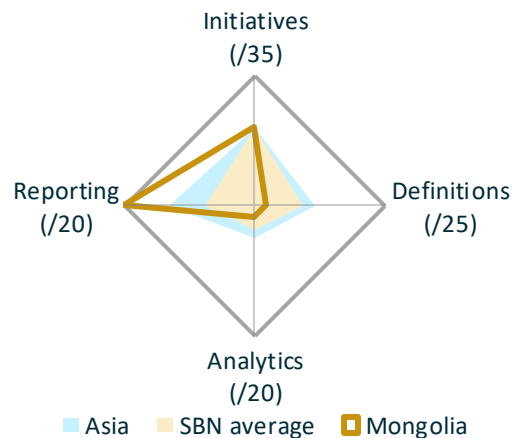
## OPPORTUNITY:

# 5. Green Finance Flows

Two of the major Mongolian banks have green finance activities, but no initiative or regulation has yet been established for green finance development.

Principle 4 of the Sustainable Finance Principles encourages green finance flows and products and aims to promote the growth of the green economy. Furthermore, the Government of Mongolia, represented by the Ministry of Environment and Tourism and the Ministry of Finance, and the MBA are working together to set up a national green finance vehicle that would bring long-term financing to projects and companies that stimulate green growth in the country (Mongolian Green Credit Fund - MGCF). The business plan has been developed, and relevant legal and market assessments have been conducted. The Green Climate Fund (GCF) has granted a Readiness and Preparatory Fund of US\$350,000 to assist with the MGCF's set up. It is expected that the MGCF will begin operating by the end of 2018.

The MGCF could help banks by providing standardized definitions of green sectors and assets, financial products, and asset classes. It could also develop calculation methodologies and tools for reporting on green finance flows and on environmentally positive impacts for the country.



Subpillars	Comments on good practice and areas for improvement
Initiatives	<ul style="list-style-type: none"> <li>- The Sustainable Finance Principles encourage banks to promote the growth of the green economy by including the financing of green projects in their business strategies.</li> <li>- The Mongolian Sustainable Finance Initiative launched an award in 2015 that honors the bank that has implemented the Principles exceptionally well, in terms of reporting, training, and advocacy to clients or borrowers.</li> <li>- At present, there is no market instrument in Mongolia that would facilitate a national-scale green financing scheme. However, the current work on a Mongolian Green Credit Fund could help Mongolia advance in this area.</li> </ul>
Definitions	<ul style="list-style-type: none"> <li>- To promote green-economy growth, the Sustainable Finance Principles recommend that banks develop a definition of green products and services that is coherent with their business objectives.</li> <li>- A standardized definition of green finance and green finance assets would further encourage banks to develop green finance.</li> </ul>
Analytics	<ul style="list-style-type: none"> <li>- As of now, the framework does not provide any guidance or tools that would allow banks to measure either their green finance flows or their positive impact on the environment.</li> </ul>
Reporting	<ul style="list-style-type: none"> <li>- The Sustainable Finance Principles require banks to report on their progress regarding each of the eight principles, including Principle 4: “Promote green growth economy”.</li> <li>- The voluntary reporting template provided by the MBA contains a section dedicated to “green financing measures”. which contains quantitative indicators.</li> <li>- For greater reporting impact, this template could be made mandatory.</li> </ul>