

A Sustainable Banking Network (SBN)
Task Force Report

Addendum to the SBN Report
*Necessary Ambition: How Low-Income
Countries Are Adopting Sustainable Finance
to Address Poverty, Climate Change, and
Other Urgent Challenges*

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Country Profile Mongolia



Sustainable
Banking
Network



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Mongolia



SBN Members:

- ❑ Central Bank of Mongolia (member since 2012)
- ❑ Mongolian Bankers' Association (MBA) (member since 2013)
- ❑ Mongolia Ministry of Environment and Green Development (member since 2013)

SBN Working Groups: Measurement Working Group, IDA* Task Forces, and Green Bond Working Group

Key policy documents:

- ❑ Mongolian Sustainable Finance Principles (MBA, 2014)
- ❑ 4 Sector Guidelines: agriculture, construction & infrastructure, manufacturing, & mining (MBA, 2014)
- ❑ National Financial Market Development Programme 2025 (Government of Mongolia, 2017)
- ❑ National Sustainable Finance Roadmap of Mongolia (MSFA, 2018)
- ❑ Central Bank of Mongolia Monetary Policy (2019)
- ❑ Mongolia Green Taxonomy (MSFA, 2019)

SBN Progression Matrix Stage (2019): Advancing – the country has adopted voluntary industry principles (which were subsequently made mandatory by the central bank), has implementation tools and initiatives in place, and requires reporting by financial institutions.

SBN and IFC role: IFC, through the Asia region Environmental and Social Risk Management (ESRM) Program for financial institutions, has provided

advisory services to both MBA and Central Bank of Mongolia in relation to policy development, implementation, and capacity building, in partnership with the Government of Japan. Through SBN, MBA has shared its experience with other SBN members and benefited from the collective SBN knowledge base.

About this Country Profile:

This Country Profile is an addendum to the SBN report: ***Necessary Ambition: How Low-Income Countries Are Adopting Sustainable Finance to Address Poverty, Climate Change, and Other Urgent Challenges.*** The report and country profiles for the first time capture in a systematic way how sustainable finance is being harnessed by low-income countries to address a range of common environmental and social priorities and drive financial sector innovation despite market constraints.

The report and profiles complement and build on the data collection and analysis for the SBN 2019 Global Progress Report, which covered 39 emerging markets. They delve deeper into the experiences of 8 low-income countries in the SBN network through an online survey, interviews, and desk research.

This country profile has four sections:

- ❑ The **Drivers of Action** – factors that spurred the country to develop sustainable finance policies or voluntary principles.
- ❑ The country's **Experiences in Developing Sustainable Finance Frameworks** and what was learned in the process.
- ❑ **Future Priorities** for the country as it continues to develop its sustainable finance systems.
- ❑ How the country views linkages between sustainable finance policies and **Broader Development of its Financial System.**

* IDA stands for the International Development Association (ida.worldbank.org), an international financial institution under the World Bank Group that offers concessional loans and grants to the world's poorest developing countries.

1 Drivers of action

Which factors spurred sustainable finance in Mongolia?

The mobilization of the domestic financial sector on sustainability priorities has driven sustainable finance development in Mongolia. Air pollution levels in Ulaanbaatar, the capital, are among the highest in the world. Through the sustainable finance initiative, the MBA and other stakeholders have raised banks' awareness about their potential contribution to air pollution and other E&S issues. Banks also became aware of benefits such as green finance, which provides opportunities for international partnership

and funding; enhanced resilience to E&S risks in bank lending; and an improved public image. Figure 1 compares the important drivers of sustainable finance in Mongolia to the drivers of other SBN IDA countries. Compared to other SBN banking association members, Mongolia places less emphasis on policymaker engagement and greater emphasis on a coordinated voluntary approach. As with other countries with established sustainable finance systems, Mongolia has relied on a supportive policy environment and awareness of environmental and social challenges to drive sustainable finance development. Market incentives have also been an important driver of sustainable finance in Mongolia.

“The success of the Mongolia Sustainable Finance Initiative and the banking sector E&S framework is mainly because of the continuous effort made by the Mongolian Bankers Association to raise awareness among local banks, and to convince them of the necessity of sustainable finance through frequent capacity-building activities both within and outside of the country. In addition to that, identification of the appropriate drivers and partners, and alignment to the country needs, were crucial factors.”

- Mongolian Sustainable Finance Association

Figure 1 The policy environment, coordinated voluntary approach, market incentives, and E&S challenges have pushed Mongolia to begin its sustainable finance journey

	High	Medium	Low	N/A
Policy environment: National commitments to the Sustainable Development Goals (SDGs), Paris Agreement on Climate Change, or a National Sustainable Development Policy	●●●●●●●●●●		●	●
Policymaker and/or regulator engagement: National guidelines or regulatory requirements to better manage environmental and social (E&S) risks in the financial sector, improving financial stability	●●●●●●●●●●	●	●●	●●●
Coordinated voluntary approach: Initiative taken by local financial institutions to adopt international good practice in sustainable finance and level the playing field	●●●●●●●●●●	●		●●●●●●●●●●
Market incentives: Opportunity to increase competitiveness and resilience of the financial sector through innovation in green and socially inclusive finance	●●●●●●●●●●	●●●●●●●●●●	●●	●
Environmental and social challenges: E&S risk exposure that fosters participation of financial institutions to address the E&S risks at the country level	●●●●●●●●●●	●	●●	●
Peer experience: Demonstration effect of countries that have adopted a sustainable finance roadmap	●	●●●●●●●●●●	●	●●

Notes: Large dots represent Mongolia's responses; small dots represent those of other countries.
Source: SBN IDA Diagnostic Survey responses

2. Developing a sustainable finance framework

What process did Mongolia go through to develop a framework to promote sustainable finance, and what was learned along the way?

The process of developing sustainable banking frameworks in Mongolia, summarized in Figure 2, has required the support of a number of actors, including government, international partners, financial institutions, and the MBA.

Figure 2 Stages and steps for developing and implementing the sustainable finance framework in Mongolia



Source: SBN IDA Diagnostic Survey responses

“In the early years, Environmental and Social Risk Management was just a checklist process at banks, but now it has become a corporate-level strategic framework.”

“The road to implementation was a challenging one, yet it proved that public-private partnership is fundamental.”

- Mongolian Sustainable Finance Association

In the process of developing and implementing the sustainable finance framework, a key challenge was the initial limited capacity in the banking sector.

To address this issue, the MBA focused on supporting banks to take ownership of sustainable finance through discussions on the vision for sustainable finance with key stakeholders and agreeing to five-year objectives. Implementation involved a gradual ‘step-by-step’ approach, in which banks were supported to develop internal sustainable finance policies with limited time

pressure. The MBA and the Mongolian Sustainable Finance Association (MSFA), with support from IFC and the Netherlands Development Finance Company (FMO), have also implemented a number of capacity-building activities such as workshops, train-the-trainer sessions, monthly knowledge sharing meetings, international exchange visits, and a sustainable finance online learning platform.

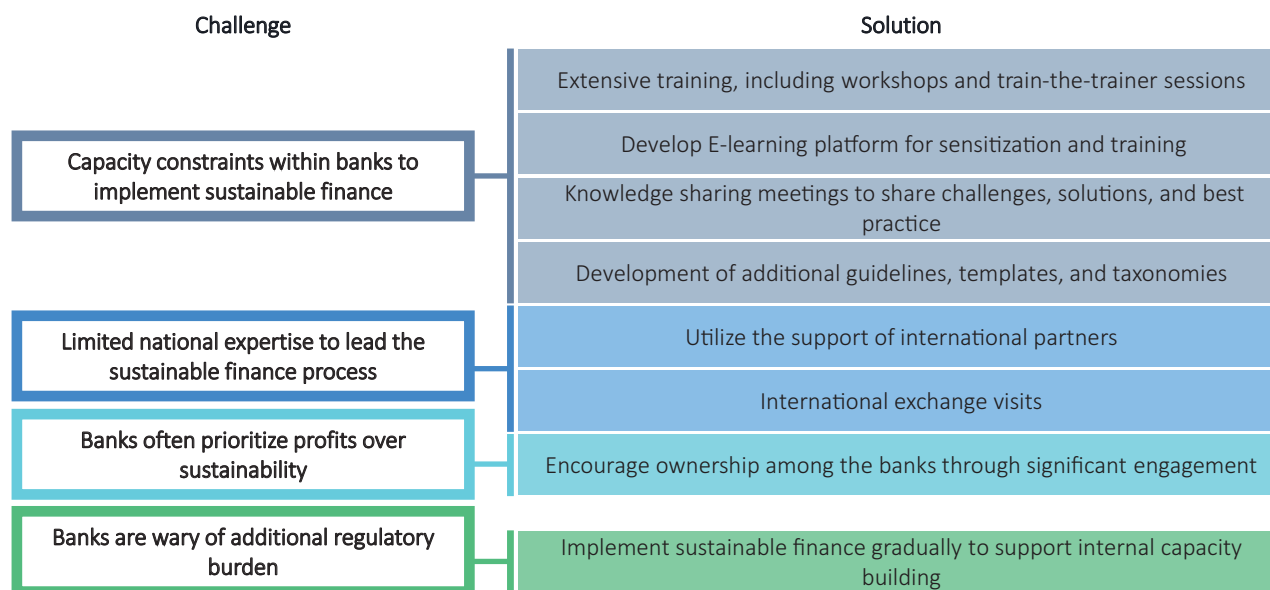
The Mongolian Sustainable Finance Principles have

been successfully implemented in Mongolia. The principles were incorporated and applied within bank activities, including staff training, internal policies and regulations, and due diligence procedures.

Since 2015, all 14 banks have voluntarily adopted

the sustainable finance principles in their operations. Over 1,000 banking professionals have received training and 47 loans have been rejected after due diligence procedures identified potential harmful impacts on the environment and society.

Figure 3 The solutions Mongolia found to address the limited capacity in the banking sector



Source: SBN IDA Diagnostic Survey responses

3. Future priorities

What are Mongolia's priorities as it continues to develop a sustainable financial system?

The key priority for sustainable finance development in Mongolia is the implementation of the sustainable finance roadmap. The roadmap aims to integrate sustainability into financing and investment policies and frameworks, increase green investment flows, and create a supportive enabling environment. While the Principles were focused on the voluntary actions of banks, in this next phase the MSFA will focus extensively on working with the regulators and expanding sustainable finance into nonbank

financial institutions, the stock market, and insurance. In this early stage of implementation, the key next steps are to develop a concrete action plan (including a financing strategy), stakeholder engagement, and mobilization of thematic working groups. There are also plans to establish a Mongolia Green Finance Corporation—a national green finance vehicle for promoting clean, green, resource-efficient, and socially inclusive projects. Figure 4 compares Mongolia's ongoing challenges in developing a sustainable finance system to those faced by SBN member associations in other IDA countries. As with its peers, the MSFA's focus is on developing a supportive enabling environment, capacity building and specific tools to support sustainable finance implementation.

Figure 4 Ongoing challenges to be met in developing and implementing sustainable finance for Mongolia

		High	Medium	Low	N/A
Enabling environment and capacity building	Build the capacity of regulators and financial institutions	• • • • • • • •			
	Enhance cooperation among financial institutions	• • • • • •	• •		
	Provide clear incentives for sustainable finance	• • • • • •	• •		
	Develop and launch a sustainable finance roadmap	• • • • • •	•		• *
	Expand sustainable finance to other financial sectors	• •	• • • •	• •	
Specific regulations or tools	Develop a taxonomy of green/socially inclusive projects	• • • • • • • •	•		
	Promote publicly environmental data	• • • • • •	• •		
	Create green asset guidelines, incentives, and awareness	• • • • • •	• •	•	

Note: Large dots represent Mongolia's responses; small dots represent those of other countries.

* Mongolia has already developed a sustainable finance roadmap, and hence N/A.

Source: SBN IDA Diagnostic Survey responses

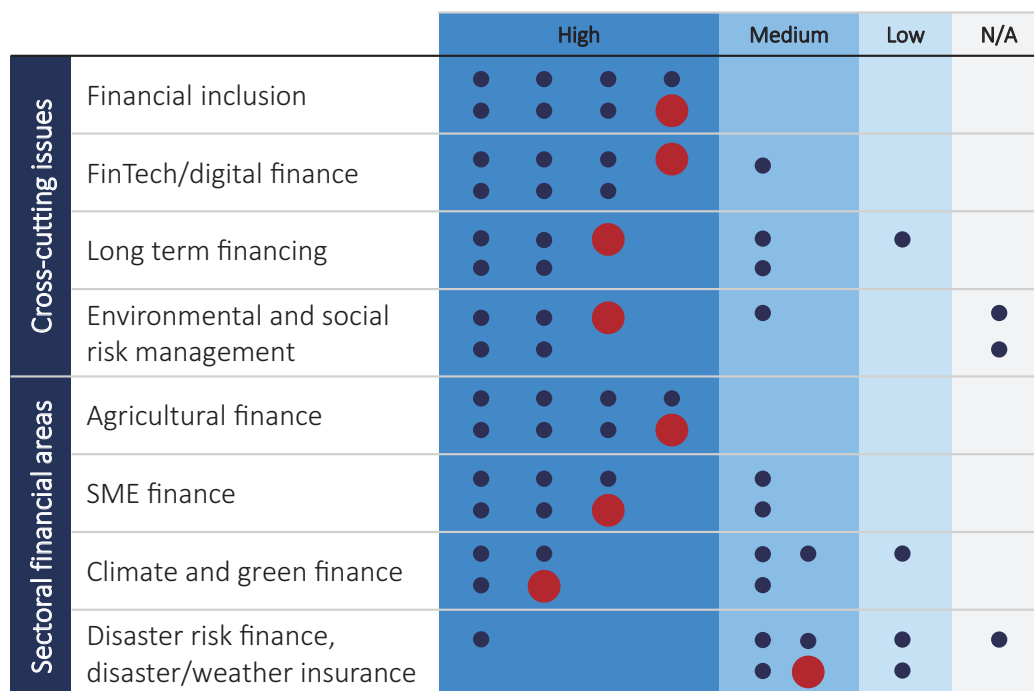
4. Broader financial sector development

How does sustainable finance in Mongolia connect with broader ambitions?

In Mongolia, stakeholders are concerned about broad financial sector development. Figure 5 compares the MSFA's concerns related to financial sector development to those of the other SBN members from IDA countries. Additional priorities raised include financing for the construction and manufacturing

sectors, energy efficiency improvements, and clean technology and green mortgages. In Mongolia, sustainable finance incorporates the development of inclusive and diverse financial services. Financial inclusion is prioritized, as it is considered critical to reducing poverty and inequality, empowering women, supporting entrepreneurship, encouraging human capital investment, and fulfilling commitments under the SDGs.

Figure 5 Key areas of concern related to financial sector development for Mongolia



Notes: Large dots represent Mongolia's responses; small dots represent those of other countries.

Source: SBN IDA Diagnostic Survey responses

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www.ifc.org/sbn

Access the SBN Necessary Assessment Report
and associated Country Profiles at:
www.ifc.org/sbnnecessaryambition



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