Creating Sustainable Development Together!

MONGOLIAN SUSTAINABLE FINANCE FORUM 2017 FINAL REPORT

FOSTERING PARTNERSHIPS TO SCALE UP SUSTAINABLE FINANCE

Shangri-La Hotel, Ulaanbaatar | September 14, 2017
This report is aimed to summarize the highlights of the Mongolian Sustainable Finance Forum 2017. It features issues raised and conclusions made from the presentations and panel discussions. The note also sets out a background for further discussions and actions to deliver on the goal to advance the Mongolian Sustainable Finance Initiative (MSFI) to the next stage, including the establishment of the Mongolian Green Credit Fund (MGCF).

1. OVERVIEW

The 5th Mongolian Sustainable Finance Forum took place on September 14, 2017 at Shangri-La Hotel in Ulaanbaatar, Mongolia. This year’s event was organized by the Mongolian Bankers Association (MBA) and the Ministry of Environment and Tourism (MET), in cooperation with other partners including Arig bank, IFC, GGGI, BMZ, UN Environment, UNDP, Biofin and PAGE. The event was also supported by the policy partners of the Mongolian Sustainable Finance Initiative - the Ministry of Finance (MoF), the Bank of Mongolia (BoM), the Financial Regulatory Commission (FRC), Ulaanbaatar City Mayor’s Office and the Mongolian National Chamber of Commerce and Industry (MNCCI).

The focus theme of Forum was “Fostering Partnerships To Scale Up Sustainable Finance” and more than 500 people attended the event from government and regulatory organizations, banks and other FIs, DFIs and international organizations, clients, businesses, civil society organizations and the academia. Organized in its 5th year, the Mongolian Sustainable Finance Forum has grown into a flagship event to discuss partnership opportunities to drive the green development agenda of Mongolia through innovative financial instruments and processes.

One of the key topics discussed was the extension of the sustainable finance initiative scope to include all parts of the financial sector such as financial regulations, micro finance, insurance and capital markets. To deliver on this objective, the MBA announced the establishment of the Mongolian Sustainable Finance Association as a sister NGO of the association. Another important announcement was the partnership agreement, in the form of MOU, between MBA, MET, MoF and GGGI, towards setting up the Mongolian Green Credit Fund and channeling resources to kick start the operations of the fund.

Key features also included the participation of influential representatives from the UN Environment, GGGI, GCF, IFC, UNDP and FMO as a testament of international partners’ continued commitment to promote sustainable finance in Mongolia. A visual exhibition was set up to showcase sustainable projects developed under the MGCF and create opportunities for interaction and networking between project developers and financiers.

The 5th Mongolian Sustainable Finance Forum was another successful event signaling the importance of a collaborative approach towards deepening the commitment and impact of sustainable finance. On behalf of the organizers, we sincerely thank all the partners and supporters who have made this event possible and who have contributed to the fruitful outcomes of the discussions.

THE FORUM IN NUMBERS

20+ PARTNERS
20+ EXHIBITORS
500+ PARTICIPANTS
30+ HIGH-LEVEL SPEAKERS
3+ HIGH-LEVEL PANEL DISCUSSIONS
The Mongolian sustainable development and green growth vision offers an ambitious set of goals centered on human development, inclusive growth and equity, and entails the establishment of an investment program, enhancement of the capacity of human resources, and improvement in the operations of development funds as key directives.

However, putting sustainability at the heart of economic and financial policies and practices is urgently needed if the Sustainable Development Goals (SDGs) are to be achieved and a low carbon development is to be realized. Realizing these needs, the Mongolian Bankers Association, with the support of IFC and FMO, have been proactively contributing to the country's green economy agenda by launching a set of voluntary standards called the Mongolian Sustainable Finance Principles. The principles define how financial institutions can manage environmental and social risks and meet growing financing needs for green and inclusive economic growth. The principles have already been adopted by all banks; environmental and social management systems (ESMS) have been established and environmental and social risk assessments in banks' lending and investment operations have been integrated.

Principle 4, named “Promotion of Green Economy Growth”, urges banks to consider their core business and existing mix of products and services, as well as new market opportunities to develop appropriate green products or services. In order to realize the implementation of principle 4, it was concluded that a financial mechanism needs to be established to effectively promote green business development.

Recognizing this need, The Government of Mongolia (GoM), represented by the Ministry of Environment and Tourism (MET), and the Mongolian Bankers Association (MBA) are jointly working to establish the Mongolian Green Credit Fund (MGCF), a national green finance vehicle to bring long-term financing to projects and companies that stimulate green growth in the country. With the support of GGGI and PAGE, the MGCF's Business Plan has been developed and relevant legal and market assessments have been conducted. Further preparatory activities will be conducted under the Readiness and Preparatory Program of the Green Climate Fund and the MGCF’s set up of operations will take place through 2018.

Furthermore, the realization of sustainable finance implies looking at the governance structures and institutions which regulate financial market outcomes. With this in mind, the UN Environment Inquiry has been supporting the Mongolian banking sector on a project to develop a national sustainable finance roadmap for Mongolia that integrates sustainable finance beyond the banking sector into financial regulations and non-banking operations. The roadmap will be finalized in early 2018 and implementation activities will follow.
**3. HIGHLIGHTS OF OPENING REMARKS**

D. Oyunkhorol, Minister of Environment and Tourism (former)

“THE ESTABLISHMENT OF THE MONGOLIAN GREEN CREDIT FUND HAS BEEN ON OUR CORE AGENDA. WE HOPE THIS FORUM WILL SPOTLIGHT NEXT ACTIONS TO ENSURE THE SUCCESSFUL CAPITALIZATION AND LAUNCH OF THE FUND.”

“Since records began in the 1940s, Mongolia has seen its temperatures warm by 2.1°C, roughly three times the average global rate. As a way to battle climate change both at home and globally, Mongolia signed the 2016 Paris Agreement, with a pledged commitment to decrease greenhouse gas emissions by 14 percent by the year 2030. Beyond climate change, the country also faces serious environmental and social challenges such as air pollution, urbanization and health hazards. As the ministry primarily responsible to find solutions to these issues, we have been supporting many important projects in Mongolia in the areas of legal reform, policy research and development, green procurement and budget planning, and capacity development for sustainability.

Moreover, we have been closely coordinating with the banking sector to ensure the financial system also supports the country’s green agenda. As part of these efforts, the establishment of the Mongolian Green Credit Fund has been on our core agenda in 2017. We hope this Forum will spotlight next actions to ensure the successful capitalization and launch of the Fund – a mechanism to accelerate the achievement of Mongolia’s green growth targets.”

O. Orkhon, President of the Mongolian Bankers Association

“We recognize the need for a wider platform that could accommodate the participation of various financial sector players beyond banks.”
Looking back at the Mongolian sustainable finance journey that started 4 years ago, we are happy to see how much the initiative has grown both in terms of the depth of financial institutions’ consideration of sustainability risks and the expansion of the initiative to other sectors and countries such as Cambodia and the Philippines. An important milestone this year, is the launch of the project to develop a national sustainable finance roadmap for Mongolia. We believe that these efforts will set the basis to develop the “green insurance”, “green bond” and “green stock exchange” markets. We recognize that these developments are clearly signaling the need for a wider platform that could accommodate the participation of various financial sector players beyond banks.

So, we are happy to announce that the MBA board has made the decision to establish the Mongolian Sustainable Finance Association, the first organization of its type in the country. Taking this opportunity we thank for the tireless efforts of all our partners’ that helped us reach this important milestone.”

O. Orkhon, President of the Mongolian Bankers Association

“WE RECOGNIZE THE NEED FOR A WIDER PLATFORM THAT COULD ACCOMMODATE THE PARTICIPATION OF VARIOUS FINANCIAL SECTOR PLAYERS BEYOND BANKS.”
4. KEYNOTE SPEECH

Erik Solheim, Executive Director of UN Environment

“WE NEED TO GO FASTER IN THE DIRECTION THAT WE HAVE AGREED TO GO. IN THAT, WE HAVE TO FOCUS ON PEOPLE AND RESULTS. THE BIGGEST MISTAKE THAT WE CAN DO IS TO DISREGARD THE PRIVATE SECTOR.”

“It will be a crime against the future generations if we do not act now. The private sector is the largest driver of the global green agenda. The numbers of foreign aid is USD 150 billion. This is close to nothing compared to the private sector investment of USD 70,000 billion. Therefore, we have to use the precious resources of aid to leverage the private sector.

Emerging market countries around the world, including Mongolia, took the development approach to first become rich and then take care of the environment. We can completely merge economic development and the environment. Businesses all around the world from Apple, Google, Walmart are pursuing green business because it is good business. The biggest mistake that we can do is to disregard the private sector. But the private sector also needs the government and global institutions like the UN Environment to frame the market, develop guidelines and create capacity. Governments need to regulate the markets, otherwise the transformation will not happen. Requirements for asset and climate risk disclosing are some of the examples.

Pollution is probably the biggest killer of humans. According to WHO, one of four humans are dying prematurely because of air pollution. We need to fight pollution by promoting other solutions such as solar and wind. Thanks to the enormous markets, the price of solar has become affordable, at least competitive to coal. Even if we do coal, we need to calculate the cost of the coal produced. The cost of coal is not only the burning of the coal but also the cleaning of the windows and the hospital cost of people that have been affected by diseases because of air pollution. Government can also help solar and wind energies take off faster by providing feed in tariffs, and removing all the subsidies for fossil fuel production and set policies that allows private sector to increase investments in green projects.

We are at a turning point in human history. For the first time, we can completely merge development and the environment into one strong current. But for that to happen, we need finance and the private sector for change to happen at scale. Therefore, whatever the private sector needs, the UN Environment will work with you to help you.”

An MOU between MBA, the Ministry of Environment and Tourism, the Ministry of Finance, and GGGI was signed to formalize the commitment of the partners to move forward with the set-up, capitalization and launch of the Mongolian Green Credit Fund.
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6. SPECIAL ADDRESS
Frank Rijsberman, Director-General of GGGI

“AIR POLLUTION IS CERTAINLY THE MOST DRAMATIC ENVIRONMENTAL PROBLEM WE HAVE FACED. FACILITIES SUCH AS THE MGCF COULD REALLY MAKE A DIFFERENCE.”

“We are supporting governments around the world to move into a greener path. Growth is absolutely necessary to all countries to reduce poverty and provide services to the people. However, rapid economic growth has led to air quality that is not accessible. Air pollution is certainly the most dramatic environmental problem we have faced. To combat air pollution we need to promote alternative energy sources. In these efforts, GGGI is supporting the development of the Mongolian Green Credit Fund. What’s unique about this fund is that it will focus on not only large solar projects but also small scale projects in the ger area such as heaters for replacement of coal stoves.

GGGI is working to support similar facilities in various countries and we fully believe that these facilities can really work and make a big difference. By involving a little bit of concessional funding and government support, we can create incentives that is attractive for the private sector to finance green projects such as renewable energy and alternative heating.”

“SUCCESS IS IN DOING WITH THE PRINCIPLE OF PEOPLE, PARTNERSHIP AND RESULTS. WE WILL FURTHER SUPPORT MONGOLIA IN BECOMING ONE OF THE LEADING EXAMPLES FOR OTHER REGIONS.”

Tuyen D. Nguyen, Chief Representative, IFC Ulaanbaatar Office

“We would like to congratulate the MBA and all the stakeholders and the private sector for the success by “doing”.

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Tuyen D. Nguyen, Chief Representative, IFC Ulaanbaatar Office

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In 2015, Indonesia had the worst forest fires that it has seen in the entire history where 1.6 million hectares of forest (2.6 Gt of CO2 equivalent) was burnt to ashes. So, the Tropical Landscapes Financing Facility (TLFF) started with the thinking if there are solutions to preserve the pristine tropical forest of Indonesia. In the past, there have been many pilot projects trying to achieve this agenda. Pilots don’t fail, but pilots don’t scale.

The purpose of TLFF is to bring private finance for public good. The TLFF supports the achievement of Indonesia’s NDC targets and the Sustainable Development Goals. UNEP provides the seed money and the secretariat, with ADM capital as the asset manager and BNP Paribas as the structuring advisor and fund raiser. There is a steering committee and also separate loan advisory boards for the grant fund and the loan fund.

Potential financial sector partners of the facility include DEG, IFC, FMO, Deutsche Bank, HSBC and many more. The important stakeholders that are working to turn concepts into projects include WAC, First Solar, CAT, the Nature Conservancy, WWF, Unilever and so on. The civil society partner will get a grant to make sure the project delivers on its objective. These type of facilities are possible but challenging. Thus, finding the partnership of people with the right intent is key.
The three main target markets for the MGCF are i) Alternative Heating Solutions for the Ger Segment, ii) Energy Efficiency Products for Large Energy Consumers identified by the Energy Conservation Law, and iii) Affordable Green Housing and Mortgage Schemes. As for the energy efficiency (EE) market, GGGI has conducted energy audits to make a detailed estimation of the EE market and investment potentials in Mongolia, and develop a pipeline of 15 EE projects with sector focus on mining, energy and manufacturing.

As the outcome of the assessment, the auditors suggested 96 different activities to reduce the energy consumption of the 15 companies. These activities range from the replacement of conventional lamps with energy efficient lamps to the installation of new transformers and the reconstruction of walls and windows for better insulation.

The total investment need to implement these projects is estimated at USD 56 million with energy savings of 14,192 MWh annually and potential CO2 reduction of 620,231t. These projects also have multiple benefits beyond cost savings including security, competitiveness and productivity. Therefore, these projects are considered as high potential projects to be financed by commercial banks through the MGCF.
9. PANEL DISCUSSION: MONGOLIAN GREEN CREDIT FUND – TURNING IDEAS INTO REALITY

1. T.Bulgan, Head of Green Development, Policy and Strategy Department, Ministry of Environment and Tourism
2. Kh.Bulgantuya, Deputy Minister of Finance
3. Mahua Acharya, Assistant Director-General of GGGI
4. Patience Mayaki, E&S Officer of FMO
5. Ayaan Adam, Director of Private Sector Facility, Green Climate Fund (GCF)
6. Satya Tripathi, Executive Secretary of TLFF
7. S.Orgodol, Deputy CEO of Trade and Development Bank
8. J.Batbayasgalan, UB City's Vice Governor for Green Development
9. J.Unenbat, CEO of MBA

Moderator: B.Naidalaa, Member of ToC Steering Committee

“MONGOLIA DESERVES ALL THE SUPPORT WE CAN BRING”

Capitalization

GCF is supporting the MGCF through its readiness support to help structure the fund. Once the feasibility is done, GCF can also provide equity or catalytic equity through its accredited entities such as Xac bank. From the government side, Ministry of Finance (MoF) will be able to support the fund in its capitalization stage through risk sharing instruments such as credit guarantee. Further, MoF is planning to help attract and channel various international and local funding sources such as the Green Development Fund — a newly established government fund with focus to support larger green projects. The UB City Governor’s office also expressed its readiness to provide some seed capital for MGCF specifically to fight with the pollution issues in the country.

Addressing currency and market risks

Panelists highlighted the need to find a solution that will be able to support banks in providing green financing at a rate that is suitable for the target markets. Therefore, the MGCF has been designed as a facility that will work for the risk mitigation needs of banks and local entrepreneurs.

One of the critical needs is the foreign currency exchange volatility coverage. Just from the data of the past 5 years, it can be easily seen how much negative effect FX swap costs have on the efficiency of foreign investments. Therefore, the Ministry of Finance’s support to find solutions to cover this volatility is critical.

Pipeline development

FMO is supporting a market assessment on alternative heating solutions for the ger area as it’s a fundamental problem Mongolia is facing. The outcome of the market assessment is aimed to demonstrate a business case to international private sector investors to invest in the fund. However, to promote such a product at its full scale, basic infrastructural issues needs to be solved. More investment needs to be put to expand the national grid under the leadership of the government. GGGI is also supporting the development of the EE sector together with the Energy Regulatory Commission. Under this partnership, standards, labels and incentives will be created for private sector companies that are reducing their energy usage.
Policy support for MGCF

The Government of Mongolia clearly recognized the involvement of the private sector in financing Mongolia’s green development agenda. The Ministry of Environment and Tourism (MET) has been supporting the MGCF project at the policy level including the development of the criteria and assessment tools to identify and evaluate green projects, the design of a framework to incentivize green technologies, and capacity development for both public and private stakeholders. Going forward, MET has to ensure that the green project criteria meets international standards and impact requirements of DFIs, and also create awareness of green business practices among the public. International partners also noted the importance of creating an enabling environment for investor friendly policies and infrastructure development.

Governance and transparency

Partners clearly see the value of MGCF. One of the most promising aspects of MGCF is the local ownership and leadership of the initiative from both the private and public side. However, we have to ensure that the fund management is given to the private sector to ensure good governance and transparency principles. The fund needs to be independent from political influence.

Supporting entrepreneurs

Looking at the existing financial institutions, there is a need for a development type of fund in Mongolia that supports the next generation of industries. Without entrepreneurial capital, it’s difficult for large projects to come in. Thus, MGCF should also serve the entrepreneurial needs and spirits.
PART II: MONGOLIAN NATIONAL SUSTAINABLE FINANCE ROADMAP

10. PRESENTATION: ANNUAL IMPLEMENTATION PROGRESS OF THE MONGOLIAN SUSTAINABLE FINANCE INITIATIVE

E. Nomindari, Project and Partnership Manager, MBA

“THE ENGAGEMENT AMONG THE FINANCE SECTOR, GOVERNMENT AGENCIES AND THE PRIVATE SECTOR CAN STILL BE INVIGORATED TO MOBILIZE FINANCE FOR THE TRANSITION TO A GREEN INCLUSIVE ECONOMY. THE MOMENTUM THAT HAS BEEN CREATED SHOULD NOT BE LOST.”

In 2017, the Mongolian Sustainable Finance Initiative has created many new partnerships. The initiative took part in many peer-to-peer learning activities with countries such as Kenya, Cambodia, China and the Philippines. Moreover, the MBA has actively worked, together with IFC, to start the integration of sustainable finance in regulatory policies and the non-banking financial sector. MBA member banks have confirmed the value of the initiative by reporting better credit risk management performance due to ESG considerations.

Although a lot has been achieved, the engagement among the finance sector, government agencies and the private sector can still be invigorated to mobilize finance for the transition to a green inclusive economy. The momentum that has been created should not be lost. As the next step, the MBA aims to help banks deepen their technical knowledge on sustainable finance, introduce ESG affected pricing methodologies, develop a framework for E&S data collection and develop a definition and scoring system for green projects. The initiative has set a vision to become a sustainable finance knowledge center in the region. As part of this vision, the MBA board made the decision to establish the Mongolian Sustainable Finance Association – a non-profit organization open to various types of financial institutions willing to adopt ESMS.
If we look at global trends of sustainable finance, national initiatives similar to Mongolia has been rapidly growing over the past 5 years. The Sustainable Banking Network (SBN) started with 10 members and now it covers 34 countries and 85 percent of the entire emerging market banking assets. The national guidelines developed by SBN members include E&S risk management guidance for banks but also increasingly more overarching principles for the entire financial market.

Sustainable finance is still a new concept that requires a lot of collective thinking and innovative ideas. So private sector experience is highly important. In addition, inter-agency collaboration and the support from different ministries are key.

Given that Mongolia is now looking at developing a national sustainable finance roadmap, an interesting example to learn from could be the Indonesia/OJK roadmap that provides guidance to the entire financial industry.
PART II: MONGOLIAN NATIONAL SUSTAINABLE FINANCE ROADMAP

12. PANEL DISCUSSION: MONGOLIAN NATIONAL SUSTAINABLE FINANCE ROADMAP

1. B. Lkhagvasuren, Deputy Governor of the Bank of Mongolia
2. D. Bayarsaikhan, Deputy Chair of Financial Regulatory Commission
3. Kh. Altai, CEO of Mongolian Stock Exchange
4. Dr. Oyun Sanjaasuren, Chair of Global Water Partnership
5. Wei Yuan, SBN Secretariat, IFC
6. Iain Henderson, Head of International Cooperation of UNEP Inquiry
7. B. Chimed-Ochir, Lead expert, BIOFIN, UNDP
8. U. Battulga, Director of Financial Policy Department, Ministry of Finance

Moderator: D. Tumurkhuu, Chairman of ToC Steering Committee, MBA

“TO FULLY MAKE SURE THAT THE WHOLE NATIONAL SUSTAINABLE DEVELOPMENT AGENDA OF THE COUNTRY, WE HAVE TO MOBILIZE NOT ONLY BANKS BUT OTHER PLAYERS IN THE FINANCIAL SECTOR.”

The need for a national roadmap

Investment needs to implement the Paris agreement and the 2030 agenda are enormous and it's clear that the private sector, especially financial institutions need to be involved. To fully make sure that the entire financial system supports the sustainable development agenda of the country, we have to mobilize not only banks but other players in the financial sector. Many countries have already started to look at this overarching approach and have developed their national roadmaps. Such roadmaps help countries to identify an integrated approach to accelerate the transition to a sustainable financial system. As for the Mongolian case, the need for such integrated approach was raised around the discussion to increase the efficiency of the different sustainability networks that Mongolia takes part in. On the other hand, if a level playing field is not created, some risks could emerge for banks to lose their businesses to other FIs that are not complying with sustainable finance standards.

In Mongolia, the development of the sustainable finance national roadmap has started in June and is led by the MBA, MoF, Bank of Mongolia, Financial Regulatory Commission and MET with the support of UNEP Inquiry and IFC.

Role of financial regulators

The Bank of Mongolia (BoM) has supported the Mongolian Sustainable Finance Initiative right from its inception and appreciates the voluntary efforts of the banking sector to set standards for more sustainable investments. As part of its financial stability function, BoM clearly has an important responsibility to further support the initiative in its next stages to ensure a level playing field going forward.

The Financial Regulatory Commission (FRC) regulates over 2200 financial institutions ranging from MFIs, SCCs, insurance companies and securities firms.
A number of these institutions have already adopted sustainable finance and green lending practices. Since the initiative is now shifting to a more blended approach, FRC intends to fully support the initiative through various policy documents. For example, sustainable finance clauses have already been reflected in the draft financial sector development strategy 2025. FRC is also an active member of the sustainable insurance network.

However, both of the regulators want to be cautious about putting too strict supervision requirements. The private sector leadership should be kept.

**Benefits of sustainable finance**

Sustainable finance represents various benefits in terms of better resilience and risk management of the financial market through the integration of ESG considerations. Some evidence is emerging from SBN members through innovative frameworks such as sustainable finance data systems. Looking from these data, it could be clearly seen that quality of green assets is much higher compared to conventional assets. For example, two of China’s leading banks have collected statistics showing that the average NPL ratio of green loans is around 0.22 percent compared to the overall average of 1.6 percent.

**Increasing green investment flows**

To promote green finance at scale, various international funding sources need to be mobilized. The Ministry of Finance is planning to tap in the growing financing opportunities internationally focusing on green impacts. Another area that MoF would like to explore further is the possibility to develop a green bond market in Mongolia. A successful example to learn from is the China green bond market. Mongolia also has the potential to participate in China’s green financing scheme through initiatives such as the Belt & Road. A green bond initiative and the MGCF are examples that open new market opportunities. Of course, there are still gaps such as capacity and technology development.

But moreover, defining green assets is a priority. The development of green asset catalogues will not only help to identify and develop green projects but will also give investors a better understanding of what they are investing in.

The Mongolian Stock Exchange is also planning to become a member of the Sustainable Stock Exchange Initiative to introduce ESG requirements for listed companies.

**Private sector involvement**

As part of the UNDP Biofin project, the project team tried to quantify the financing contribution from the private sector for biodiversity protection activities in the form of CSR investment. However, given the data unavailability, this amount could not be determined. Therefore, we have to develop a statistical data framework to start track private sector financing flows into green projects.

Other innovations could include the set up of a green trust fund with primary involvement of the private sector. There many examples of similar successful structures in different countries.

**Steps to develop the roadmap**

First, it’s important to understand that a sustainable finance roadmap is about system change. So far, UNEP Inquiry has worked in more than 20 countries. As part of the process to develop the roadmap, we have to understand the national context and sustainability targets of the country, identify the investment needs and key barriers, select priority targets and sectors, and define recommendations and actions to transform the financial system. UNEP Inquiry and IFC will share experiences and lessons learned from other countries.

Lastly, panelists highlighted the importance of involving all stakeholders in the discussion to develop the roadmap. The actions to be included in the roadmap should be realistic, tangible and achievable. Once all actions are agreed, they should also be amended into existing financial sector policies and regulations.
The MBA and FMO signed a partnership agreement to develop an e-Learning platform for the Mongolian Sustainable Finance Initiative. The platform is dedicated for bank staff to provide understanding and knowledge about engaging with their clients on sustainability issues and identifying new opportunities for green finance. The target group of the knowledge platform covers the entire banking sector with specific focus on responsibilities primarily involved in the credit process.

13. MBA-FMO ToC E-LEARNING ONLINE SYSTEM PARTNERSHIP AGREEMENT SIGNING CEREMONY

Trade and Development Bank of Mongolia becomes “ToC Lead Organization 2018”

Since 2015, the MBA Board has made a decision to annually select one of the MSFI member banks to lead the implementation of capacity building and awareness raising activities under the MSF Initiative. In 2017, Arig bank has successfully executed this leadership role by initiating and organizing a range of activities that promoted sustainability in the banking sector and beyond.

This year TDBM was selected as the “ToC Lead Organization” for 2018 by the MBA Board. During the Forum, the ToC Steering Committee officially handed over the “ToC Lead Organization” flag to Mr. Orkhon, CEO of TDBM.

Please click here to watch Arig bank’s short video as ToC Lead Organization of 2017.
14. ANNOUNCEMENT OF ToC LEAD ORGANIZATION 2018

Trade and Development Bank of Mongolia becomes “ToC Lead Organization 2018”

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**15. PRESENTATION: TRACKING FINANCIAL FLOWS FOR SUSTAINABILITY**

**Massimiliano Riva, Policy Specialist, BIOFIN, UNDP**

*“IN MONGOLIA, ONLY AROUND 0.56 PERCENT OF THE TOTAL GOVERNMENT EXPENDITURE GOES TO BIODIVERSITY PROTECTION. THE SUSTAINABLE FINANCE INITIATIVE OF MONGOLIA REPRESENTS MANY NEW OPPORTUNITIES TO HELP CLOSE THE GAPS IN BIODIVERSITY EXPENDITURE AS WELL AS THE INVOLVEMENT OF THE REAL SECTOR.”*

Traditionally public policy objectives were thought to be achieved only through public finance or ODA. This was the framework of the millennium development goals. But today we can not only rely on those resources. We need to find new venues to work with the financial sector and the private sector to deliver on the 2030 goals. With the implementation of ESG standards and green financing practices, we can reduce the cost of achieving the SDGs.

The tide of financial flows has already changed and created a new universe of opportunities, but also complexities and risks. Increasingly, there are more investors willing to invest in projects that not only have economic returns but also social and environmental impacts. However, wealth is very concentrated in a few markets, in a few regions even within countries. So, we have to understand how we can utilize and mobilize these sources to places where it’s needed to achieve the SDGs.

Biodiversity finance is about understanding the direction and the composition of financing flows that go into environmental sectors, particularly into climate and biodiversity expenditures. As for the Mongolian case, only around 0.56 percent of the total government expenditure goes to biodiversity protection. The sustainable finance initiative of Mongolia represents many new opportunities to help close the gaps in biodiversity expenditure as well as the involvement of the real sector. Achieving the SDGs is not only about putting the resources but about allocating the resources we have in better ways.
16. PRESENTATION: PRIVATE SECTOR FACILITY OF GCF

Ayaan Adam, Director of Private Sector Facility, Green Climate Fund (GCF)

“THE MONGOLIAN GREEN CREDIT FUND IS ONE OF THOSE PROGRAMS THAT BUNDLES IDEAS TOGETHER.”

GCF was set up by the United Nations Framework Convention on Climate Change (UNFCCC) in 2010 to keep global temperature at 2 degrees. GCF has pledges from 43 countries with asset amounts to be close to 3.6 billion this year.

Even if governments commit USD 100 billion a year, there is no way that they can alone support the capital challenge climate change requires. Therefore, GCF’s private sector facility engages the local private sector in the climate action and supports the mobilization of the trillions that need to come to climate change. In that, GCF provides risk investments such as taking first equity losses and providing insurance in the RFP for private sector capital to come in. GCF prefers projects that bundle smaller projects into a program. And in this context, the Mongolian green credit fund is one of those programs that bundles ideas together. GCF also supports capacity building to ensure the proposed projects are bankable and attractive to the private sector.

Key investment sectors of GCF go beyond energy. Transportation, cities, industries, health and water security and waste management sectors represent a lot of opportunities for CO2 reduction and positive impact to people. Other important requirements include country ownership, paradigm shift and sustainability. GCF works through its accredited entities such as Xac bank but the RFP provides a room for other non-AE players to also come in.
17. AFFORDABLE GREEN HOUSING

Arnaud Heckmann, Senior Urban Development Specialist

“WITHOUT CONCESSIONAL FUNDING SOURCES SUCH AS GCF, IT WILL BE VERY DIFFICULT TO DEVELOP THE AFFORDABLE HOUSING SECTOR IN MONGOLIA.”

As part of its portfolio, ADB is working in the ger area of Ulaanbaatar where 800,000 people live with very rare infrastructure such as no sanitation systems, very poor water systems, no district heating and so on. To address these issues, ADB is working on two main projects. One of them is a large scale infrastructure project at USD 320 million. 6 sub-centers will be developed providing not only opportunities to communities but also to the private sector. If we do not build the infrastructure, there is no way that private sector investment will come to develop these areas.

The other project is the Affordable Housing Project that aims to deliver affordable green housing and integrate it in a resilient and livable urban environment. The demand is huge. Almost 60 percent of the ger area residents are willing and able to buy a mortgage if the terms are reasonable.

However, currently we do not have any large scale programs that concentrate on affordable housing. The ADB project is a pilot project to cover 10,000 housing units (50% affordable, 15% social, and 35% market rate units). The housing units will also have energy efficiency features to be supported with GCF funding. As part of the project, a concentrated fund will be established at MoF/DBM which will channel two types of loans for developers and households in the form of mortgage products. Without concessional funding sources, it will be very difficult to develop the affordable housing sector in Mongolia.
"BUSINESSES NEED TO GO BEYOND CSR AND UNDERSTAND THE IMPORTANCE OF EMBEDDING SUSTAINABILITY IN THEIR CORE BUSINESS PROCESSES."

**Strengthening the ESG performance of banks and clients**

Banks have started conducting E&S due diligence since 2013. As part of the due diligence process, banks identify the E&S risks of projects and recommend corrective actions to their clients to mitigate these risks. However, to fully realize the positive E&S impact, we need to have multi-stakeholder efforts. Clients need to be trained on E&S management skills and regulators and policy makers should support this process as well.

Another stakeholder that can play an important role is the Mongolian National Chamber of Commerce and Industry (MNCCI). As a key engine for economic development in the country, the private sector needs to be primarily mobilized to reach our sustainable growth target. MNCCI has supported this process by promoting the adoption of the UN Global Compact among its members. But there is still a tendency in the real economy to mistranslate sustainability as corporate social responsibility.

Businesses need to go beyond CSR and understand the importance of embedding sustainability in their core business processes. MNCCI is fully supportive to the MGCF initiative and could further contribute by organizing training activities for its members to create green business capacity.

**Private sector partnership**

Cashmere production levels are breaking records. And government programs, international financial institutions, and domestic companies are promoting in-country value-add cashmere processing. However, there is no differential tariff system on raw cashmere production by herders. This has led to the degradation of grasslands and desertification due to overgrazing of cashmere goats and to climate change. There is huge potential to transform this sector into a sustainable cashmere industry. Financial institutions can contribute to the sustainable development of the sector through right ESG requirements and tailored green finance products.
Goyo LLC is one of the local companies that has experience with sustainable cashmere production. They have implemented a project called “Herders” to improve E&S responsible practices in herding activities. Going forward, Goyo LLC is willing to support the MSFI by working together to improve sustainability in the cashmere sector.

Preparing the next generation professionals

Green growth is a concept that every professional should be aware. This is not the responsibility of only environmental specialists. If we want to create more green jobs, we have to ensure that sustainability knowledge and understanding is integrated in all levels of education programs. The younger generations are those who will lead and realize the sustainability agenda 2030. Recognizing this, PAGE is working on a project to integrate green economy and sustainable finance concepts in business curriculums at university level. This will help prepare the next generation bank professionals to already have sustainable finance understanding when they enter banks. The more people understand this concept, it will be easier and faster to transition to green economy development. Universities should also show leadership as the banking sector has done by promoting lead by example practices such as greening university campuses.

Carbon credit opportunities

Bank of Tokyo Mitsubishi’s affiliated entity, Mitsubishi UFJ Morgan Stanley Securities (MUMSS) has been involved in carbon credit consultancy since 2001. They currently have 80 projects issued under the UNFCCC’s green credit mechanism (CDM). In Mongolia, they work on two CDM projects and another 4 projects through the Joint Credit Mechanism (JCM) supported by the Japanese government. One of the projects is a 10 MW solar power project in Darkhan implemented by Solar Power International.

The Ministry of Environment in Japan supports the project in a way that provides up to 50 percent of initial investment cost support in exchange of being allocated at least 50 percent of carbon emission reduction.

The carbon credit mechanism has also been used as a leverage to attract more financing. These project examples show that taking part in international carbon credit mechanisms can pave the way toward scaling up finance and partnerships.

Green building finance barriers

Green building standards including insulation standards are very high in Mongolia. The issue is not the inexistence of regulations and standards but more on the lack of enforcement. The other issue is the high cost of insulation that builders can’t afford. Therefore, we have to create financing mechanisms to enable the builders to use the funding to match those standards.

Civil society role

Many companies working in the environmental sector has been facing challenges with access to finance. In Mongolia, we have many good regulations and policies to promote green businesses. However, the policies are not backed with the financing for implementation and enforcement. On behalf of environmental professionals working in Mongolia, the Mongolian Environmental Civil Council congratulates the Mongolian banking sector for taking the lead in our collective sustainability journey. The Council is willing to support the initiative further by creating awareness and understanding among the public as well as developing pipeline projects for MGCF. To formalize these partnerships, an MOU could be signed among the key parties.
19. CONCLUSION

Participants of the MSFF 2017 confirmed the value of the event as it provides a platform for actors from various fields to come together and discuss partnership opportunities. This year’s forum was unique in a way that it showcased actual green project pipelines ready made for investment.

One important point that was repeatedly mentioned by the panelists and speakers was the importance of engaging the private sector and leveraging private sector resources and capacities for sustainable development. To do that, the government and international organizations have crucial roles to play to ensure the private sector has the right incentives and technical knowledge.

Partners of the Mongolian Sustainable Finance Initiative agreed to continue their collaborative efforts in the below areas with the aim to scale up sustainable finance:

- Define a national sustainable finance roadmap to cover all parts of the financial sector including financial regulations, micro finance, insurance and capital markets
- Partner toward the capitalization and establishment of the Mongolian Green Credit Fund
- Leverage partnerships with the real sector to improve ESG and green business capacity
- Develop common definitions and requirements towards green asset identification and classification
- Study the context and opportunities to channel more private sector investment into natural and conservation projects and activities
- Deepen the ESG and green finance related technical capacity of banks
- Collaborate with the civil society to promote sustainability awareness publicly
- Explore various incentive mechanisms for green projects such as JCM
- Scale up knowledge sharing with other countries
We invite you to join us on the journey to create a sound and sustainable future!

For more information about the Mongolian Sustainable Finance Initiative, visit: www.mba.mn. To receive information on the ToC Initiative through the ToC Newsletter, please send your request to info@mba.mn.

For further partnership enquiries, please contact Ms. Nomindari Enkhtur, Project and Partnership Manager of the MBA at nomindari@mba.mn or 11-323581.
21. PARTNERSHIP AND CONTACT

We invite you to join us on the journey to create a sound and sustainable future!

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<tr>
<th>Time</th>
<th>Session</th>
<th>Presenter/Moderator</th>
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<tbody>
<tr>
<td>08:00 - 09:00</td>
<td>Registration &amp; Refreshment</td>
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<td>09:00 - 09:05</td>
<td>Safety and logistical instruction</td>
<td>MC</td>
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<td><strong>Part I: High-Level Session - Joining forces for greener and more sustainable development of Mongolia</strong></td>
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<td>09:05 – 09:15</td>
<td>Welcoming remarks</td>
<td>Message from the Prime Minister of Mongolia</td>
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<td>D.Oyunkhorol, Minister of Environment and Tourism</td>
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<td>O.Orkhon, President of MBA</td>
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<td>09:15 – 09:35</td>
<td>Keynote speech</td>
<td>Erik Solheim, Executive Director of UN Environment</td>
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<td>09:35 – 09:45</td>
<td>Joint Commitment Announcement of the Mongolian Green Credit Fund</td>
<td>MBA, Ministry of Environment and Tourism, Ministry of Finance, GGGI</td>
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<td>09:45 - 10:00</td>
<td>Special address</td>
<td>Tuyen D. Nguyen, Chief Representative of IFC</td>
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<td>Ulaanbaatar Office</td>
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<td><strong>Part II: Mongolian Green Credit Fund (MGCF)</strong></td>
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<td>10:00 - 10:15</td>
<td>Presentation: International Best Practice - The Tropical Landscapes Financing Facility (TLFF) Indonesia and Planned Partnership on MGCF</td>
<td>Satya Tripathi, Executive Secretary of TLFF</td>
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<td>10:15 - 10:30</td>
<td>Presentation: MGCF Pipeline Project – Alternative Heating Solutions for Ger Area and Energy Efficiency for Large Corporates</td>
<td>Ch.Bolormaa, Green Investment Specialist of GGGI</td>
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<td>10:30 - 11:15</td>
<td>Presentation: Mongolian Green Credit Fund – Turning Ideas into Reality</td>
<td>B.Naidalaa, Member of ToC Steering Committee, MBA</td>
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<td>Panel discussion: MGCF – Next Steps and Partners’ Role in Moving Forward</td>
<td>Panelists:</td>
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<td></td>
<td>1. T.Bulgan, Head of Green Development, Policy and Strategy Department, Ministry of Environment and Tourism</td>
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<td>2. Kh.Bulgantuya, Deputy Minister of Finance</td>
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<td>3. Mahua Acharya, Assistant Director-General of GGGI</td>
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<td>4. Patience Mayaki, E&amp;S Officer of FMO</td>
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<td>5. Ayaan Adam, Director of Private Sector Facility, Green Climate Fund (GCF)</td>
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<td>6. Satya Tripathi, Executive Secretary of TLFF</td>
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<td>7. S.Orgodol, Deputy CEO of Trade and Development Bank</td>
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<td>8. J.Batbayasgalan, UBCity’s Vice Governor for Green Development</td>
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<td>9. J.Unebat, CEO of MBA</td>
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<td>Moderator: B.Naidalaa</td>
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<td>11:15 - 11:45</td>
<td>Coffee Break / Visual Exhibition of Pipeline Projects</td>
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<td><strong>Part III: Mongolian National Sustainable Finance Roadmap</strong></td>
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<td>11:45 - 12:00</td>
<td>Presentation: Annual implementation progress of the Mongolian Sustainable Finance Initiative</td>
<td>E.Nomindari, Project and Partnership Manager, MBA</td>
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<tr>
<td>12:00 - 12:15</td>
<td>Presentation: SBN members’ best practices with Shaping a Sustainable Financial System</td>
<td>Wei Yuan, SBN Secretariat, IFC</td>
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<td>12:15 - 13:10</td>
<td><strong>Presentation:</strong> Mongolian National Sustainable Finance Roadmap</td>
<td>D.Tumurkhuu, Chairman of ToC Steering Committee, MBA</td>
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<td>13:10 - 13:15</td>
<td>MBA - FMO ToC e-Learning Online System Partnership Agreement Signing Ceremony</td>
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<td>13:20 - 13:30</td>
<td>Announcement of ToC Lead Organization 2018</td>
<td>D.Tumurkhuu, CEO of Arig bank</td>
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<td>13:30 - 14:30</td>
<td>Networking Lunch - Naadam Restaurant, 2nd floor</td>
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<td><strong>Part IV: Partnership for Sustainability</strong></td>
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<td>14:30 - 14:45 <strong>Presentation:</strong> Tracking financial flows for sustainability</td>
<td>Massimiliano Riva, Policy Specialist, BIOFIN, UNDP</td>
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<td>14:45 - 15:00 <strong>Presentation:</strong> Topic to be confirmed</td>
<td>Ayaan Adam, Director of Private Sector Facility, Green Climate Fund (GCF)</td>
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<td>15:00 - 15:15 <strong>Presentation:</strong> Affordable green housing</td>
<td>Arnaud Heckmann, Senior Urban Development Specialist of ADB</td>
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<td><strong>Moderator:</strong> B.Batmunkh, Operations officer of IFC Mongolia</td>
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<td>16:00 - 16:15</td>
<td><strong>Summary and Closing</strong></td>
<td>J.Unenbat, CEO of MBA</td>
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<td>19:00 - 21:00</td>
<td>By Invite Only: Evening Reception - Ballroom #3, 1st floor</td>
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