

# Mongolian Economy

JULY 2024

[www.mongolianeconomy.mn](http://www.mongolianeconomy.mn)

SUSTAINABLE DEVELOPMENT

Countdown to 2030

CHALLENGE

Climate change in  
Mongolia

A portrait of Lkhagvasuren.B., a middle-aged man with dark hair and a goatee, wearing a dark suit, white shirt, and patterned tie. He is seated and looking slightly to the right. In the background, the Mongolian flag and a golden circular emblem are visible.

**Lkhagvasuren.B:**  
**The Bank of  
Mongolia is  
leading the way  
in establishing  
a sustainable  
financial system**



# GROWING TOGETHER

We are leading the sector by creating a fully **digitalized, sustainable, and green business** environment through our corporate development.

**10** TYPES OF  
ONLINE LOANS

**34** TYPES OF  
GREEN LOANS

Khan Bank accounts for **47.1%** of the market's green loan portfolio.

The solar-powered green office prevents the burning of **17 tons** of coal.



**43.6 TONS**  
CO<sub>2</sub> REDUCED



**3,000**  
TREES PLANTED



**17 TONS**  
COAL BURNING PREVENTED

*(As of end of 2023)*



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Our activities contribute to the following sustainable development goals



**Mongolian  
Economy**

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## PRODUCTS AIMED AT THE MIDDLE CLASS AND SUSTAINABLE DEVELOPMENT





# The banking sector is leading in green development

In June, we experienced an unusual phenomenon: warm days blanketed with snow. People were surprised, as they had never seen such a winter-like occurrence. Reluctant to discuss or investigate the scientific reasons behind it, many avoided the topic. However, conversations about climate change are increasing. Climate change and global warming are intensifying, significantly impacting global development policies and people's lives. Are we Mongolians prepared for this?

Mongolia is clearly not exempt from these impacts. In fact, our country has been named one of the 25 most vulnerable to climate change. It is evident in the increasing frequency of natural disasters such as droughts, dzuds, floods, earthquakes, and wildfires.

Our banking sector has rapidly advanced its sustainable development policy, establishing medium and long-term plans. It has been 10 years since the banks laid the foundation for Mongolia's green development. Last year marked the 10th anniversary of the Mongolian Sustainable Finance Association (MSFA), established by Mongolian banks. This demonstrates their unified commitment to sustainable development. Mongolia's banking sector has keenly observed global development trends and is actively pursuing sustainable development goals. Additionally, banks recognize that there is no opportunity to attract external funding by talking about the brown economy and brown business initiatives.



**Bekhbayar.D**  
*Editor-in-chief  
of Mongolian  
Economy  
magazine*

Therefore, in this issue, Mongolian Economy magazine highlights the Mongolian banking sector's leadership in sustainable development. Today marks the 100th anniversary of Mongolia's modern banking sector, which is now striving to demonstrate a commitment to environmentally friendly future development. The Central Bank of Mongolia is spearheading this new chapter in history. As our special guest, we invited Lkhagvasuren.B, Governor of the Bank of Mongolia. Additionally, we emphasize the

MSFA's ongoing commitment to advancing green financial mechanisms and highlight the "Billion Tree Fund," which aims to pioneer and finance green development in Mongolia.

We also would like to recognize Khan Bank and the State Bank for their commitment to contributing to the development of Mongolia's green economy by aligning all their policies and activities with new sustainable initiatives.

In this issue, you will find comprehensive information on how Mongolia's banking sector is forming green financial mechanisms, planning policies, and striving to meet international commitments.

As we celebrate the 100th anniversary of the modern banking sector, we congratulate the banking industry and our bankers. We also express our gratitude to them for laying the foundation for future development and promoting green concepts to the public. ■



## Sustainable development

# Countdown to 2030: Anticipating change



All countries on the blue planet have committed to the United Nations, often referred to as the global body, to fulfill their commitments by 2030. While 2030 may seem distant, it is only six years away.

Mongolia has pledged to reduce greenhouse gas emission, with its Nationally Determined Contribution stating a target of a 22.7 percent reduction by 2030 compared to 2010 levels, and up to 44.9 percent with additional absorption and conditional measures.

Mongolia's banking and financial sector is progressing rapidly, collaborating to promote green and sustainable development and meet the 2030 targets. This sector was the first to embrace the concept of sustainable development, even when understanding was limited at the government level, in the private sector, and among the public. Together, they established the Mongolian Sustainable Finance Association (MSFA).

The Governor of the Bank of Mongolia, Lkhagvasuren.B, stated, "As the regulatory authority for the banking industry, the Bank of Mongolia has been a leader in establishing a stable and green financing system. We have focused on creating a supportive policy and regulatory environment,

**As of the first half of 2023, ESG evaluations have been conducted on a total loan portfolio valued at 4.4 trillion MNT**

introducing international standards and principles, and providing policy incentives. For example, we have implemented step-by-step planning and infrastructure development for a green financing system in cooperation with relevant parties, as outlined in the government's monetary policy for 2019-2024. In 2019, the Financial Stability Council (FSC) approved the Green Taxonomy, followed by the public reporting of green loan statistics in the banking sector from 2020 onwards. By 2022, the FSC had developed and approved the National Sustainable Financial Roadmap. The following year, 2023, saw the approval of an enhanced version of the Sustainable Development Goal Financing Taxonomy, alongside the Bank of Mongolia's approval of environmental, social, and governance (ESG) criteria and climate risk assessment and management methodologies.

Nomindari.E, CEO of the MSFA, highlighted that with the implementation of green taxonomy and SDG financing taxonomy, banks and financial institutions can now identify green projects that have a positive impact on the society, assess their loan portfolios, and compile comprehensive industry statistics and Mongolia has become one of the first countries to approve such taxonomies. ►



► As of the third quarter of 2023, loans classified under the Green Taxonomy totaled 613.0 billion MNT, representing two percent of the overall loan portfolio.

### Will the goal of achieving a 10 percent green loan portfolio by 2030 be attainable?

"The goal is ambitious, but we believe it is achievable, and we are committed to making it happen" stated B.Lkhagvasuren, Governor of the Bank of Mongolia.

Meanwhile, commercial banks are swiftly advancing by formulating their sustainable development policies and establishing dedicated departments. The banks have also joined the United Nations Global Compact, aligning their strategies and policies with the Sustainable Development Goals, and the Paris Agreement under the United Nations Framework Convention on Climate Change. They are actively integrating principles of sustainable finance that promote environmental and social responsibility throughout their business operations.

Financial institutions have collectively developed comprehensive guidelines, exemplary policies, and evaluation methods for an Environmental and Social Risk Management System. These institutions conduct environmental and social risk assessments for all business loans exceeding MNT 50.0 million and with terms exceeding 12 months. Depending on the risk level, environmental and social requirements are integrated into loan approvals, with ongoing monitoring of compliance.

As of the first half of 2023, ESG evaluations have been conducted on a total loan portfolio valued at 4.4 trillion MNT.

### Global warming and the impact of banking sector

Climate change stands as the world's most urgent concern, deeply troubling humanity with its widespread detrimental effects. Its impact spans across all nations, with Mongolia identified among the 25 countries most susceptible to its ravages. The signs are unmistakable: in recent years, the frequency of natural disasters like droughts, dzuds, and floods has dramatically escalated. From 1996 to 2010, an average of 2,400 natural disasters occurred annually, but since 2010, this figure has surged to 4,300—an increase of 1.8 times.

These perilous natural occurrences are projected

to intensify further in the future. This will pose significant economic risks to Mongolia, notably as the country is considered one of the most vulnerable to climate change. It is very clear that the banking sector will play a major role in advancing green development and bolstering green financing for private enterprises. By recognizing its responsibility the sector has established many initiatives like the "Billion Tree Fund". This fund supports projects and programs aligned with sustainable development goals, particularly championing Mongolia's commitment to the global community through financing and executing of environmentally friendly initiatives. This includes support for the Billion Tree National Movement initiated by the President of Mongolia.

This July commemorates the 100th anniversary of the establishment of the banking sector in Mongolia. Over the past century, significant efforts have been made to develop, strengthen, expand, and reform the industry through policy and legal frameworks. Looking forward, the focus of the next century will be on fostering new development, adhering to and enhancing sustainable practices, and systematically integrating green development initiatives. The banking and financial sector is committed to shaping its future through new development and green color. ■

***It is very clear that the banking sector will play a major role in advancing green development and bolstering green financing for private enterprises***





**Special guest**

# Lkhagvasuren.B: The Bank of Mongolia is leading the way in establishing a sustainable financial system



*During our interview, the Governor of the Bank of Mongolia, Lkhagvasuren.B emphasized the Central bank's role in establishing a sustainable financial system. We discussed the policies and initiatives to address climate change within the banking sector.*

-Global trends are shifting towards

implementing policies to combat climate change and promote sustainable green development. What is Mongolia's position on this matter?

-Its associated risks and challenges exceed the capacity of any single nation to resolve independently. Therefore, countries must collaboratively implement policies to mitigate these risks and minimize adverse impacts. ►



- This entails integrating new technologies and innovations across sectors and adapting business practices to address both risks and opportunities.

For our country, the increasing frequency of adverse weather events and catastrophic phenomena and climate change is occurring at a rate twice as fast as the global average, which shows that the impacts of climate change are accelerating faster compared to other countries. Consequently, there is a need to reduce negative impacts and increase adaptability.

Mongolia has committed to the international community to reduce greenhouse gas emissions by 22.7 percent compared to the base level by 2030 as part of the Paris Agreement. This necessitates banks and financial sectors transitioning towards a low-carbon economy by fostering increased private-sector investments and funding. Enhancing the green and sustainable business environment is critical, involving measures to boost competitiveness, improve policy coordination among public institutions, identify critical sectors for green and sustainable development, and establish clear sustainable development plans.

**-Is our banking system prepared to increase green private-sector funding?**

-Due to the current structure of the financial system, the banking sector will play an essential role in transitioning to green development and increasing private-sector financing. Banks must be well-informed leaders and must be connected to their users to effectively and seamlessly execute green and sustainable financing. The Mongolian Banking Association and banks have been actively engaging in this direction, establishing the Mongolian Sustainable Finance Association (MSFA), expanding foreign relations and cooperation, providing vocational training and advice, incorporating international standards and principles, and attracting green financing.

To enhance the banking system's governance, strengthen the financial sector's stability, and increase investments and resource attractiveness, the "Banking Sector Reform Program" had been implemented between 2020 and 2023.

***The Bank of Mongolia's policies and activities aim to create a green and sustainable financial system, with the support of other government institutions and banks***

An additional amendment to the Banking law of Mongolia now requires all commercial banks to operate as joint stock companies. As a result, five domestic systemically important banks (D-SIBs) in the banking system have transitioned to joint stock companies, organized an initial public offering for the first time, and raised 473.5 billion MNT. In doing so, the openness of the banking sector, public oversight, funding from foreign markets, and domestic loans increased.

The Bank of Mongolia's policies and activities aim to create a green and sustainable financial system, with the support of other government institutions and banks. Thus, there are reasonable grounds for forming a sustainable financial system and increasing green sources and loans.

**-What is the role and involvement of the Bank of Mongolia in creating a sustainable financial system?**

-The Bank of Mongolia, as the regulatory body of the banking sector, has taken the lead from the beginning in the direction of creating a "general line" of a sustainable financial system, creating a policy and regulatory environment, introducing common international standards and principles, and creating policy incentives. For example, the step-by-step planning and implementation of the necessary infrastructure to develop a system of green financing has been implemented in cooperation with relevant parties, as reflected in the main direction of the government's monetary policy between 2019 and 2024. In 2019, the Financial Stability Council (FSC) approved the "Green Taxonomy" starting from 2020, statistics on green loans in the banking sector have been released and reported to the public. In 2022, FSC developed and approved the "National Sustainable Financial Roadmap". In 2023, the FSC approved a more expanded version of the "Sustainable Development Goal Financing Taxonomy" while the Bank of Mongolia approved the bank's environment, social and governance (ESG) and climate risk assessment and management methods, respectively.

In this way, it becomes possible to determine ►





► what constitutes green business and activities, and to measure the amount of credit issued accordingly. This ensures coordinated implementation of measures and timelines by parties, fostering sustainable financial system and step-by-step adoption of international methods and principles. With a clear and focused path to sustainable financing, it becomes feasible to advance faster, without risks, and extend further along that trajectory.

Banks are actively working to attract funding from domestic and international markets to support green and sustainable businesses and projects. In that sense, it opens funding opportunities for green and sustainable entrepreneurs and project developers.

**-Would you like to introduce the role of the banking industry and the Bank of Mongolia in implementing the "Sustainable Finance Roadmap" you mentioned?**

-The "National Sustainable Finance Roadmap" set out the goal of "increasing the green loan portfolio of all banking sector lending to 10 percent by 2030." The Bank of Mongolia has been working to create the policy framework needed to meet this goal. Specifically, the banking sector is working towards introducing and tracking commonly accepted green and sustainable financing standards and principles, assessing the risks of climate change that could affect the financial system, and strengthening the ability to meet these risks. It

***"National Sustainable Finance Roadmap" set out the goal of "increasing the green loan portfolio of all banking sector lending to 10 percent by 2030"***

has also provided fundamental conditions and environments for the development of sustainable and green finance, improved environmental, social and governance assessments and climate risk management, and provided support in terms of transparency. Major progress has been made on the key points reflected in the roadmap. For this year, the focus is on exploring the impact of policy tools, measuring the impact of sustainable and green funding, improving the measurement, reporting, and verification (MRV) system, and developing methodologies to assess the impact of climate change on the financial sector.

**-Can the Bank of Mongolia implement measures to attain the goal of increasing the banking sector's green loan portfolio to 10 percent by 2030? What steps is the Bank of Mongolia undertaking towards achieving this target?**

-While ambitious, we are confident in achieving this goal and are committed to pursuing it. As per the green taxonomy, green loans were categorized starting from the first quarter of 2020. At the beginning of reporting, the green loan portfolio stood at 428.1 billion MNT or 2.5 percent of total loans. However, by the first quarter of 2024, this portfolio had risen to 875.3 billion MNT, constituting 3.0 percent of total loans. The issuance of green loans in the first quarter of 2024 has surged by 2.3 times compared to the previous year. This escalation can be attributed to policy incentives introduced by the Bank of Mongolia, augmented bank resources from the foreign market, and active efforts towards expanding the domestic market. Expectations foresee a more rapid growth of green credit in the forthcoming years, driven by stringent reporting conditions and effectiveness verification associated with external green financing. Current projections suggest that the green loan portfolio will attain 6 percent of total loans by 2026 and 10 percent by 2030."

Within its mandate, the Bank of Mongolia has played a role in promoting sustainable and green financing. The Bank of Mongolia provides policy support to reduce the cost and exchange rate risk of green financing sources drawn from foreign markets to create incentives for green loans. ►



► Also, the risk weight of green construction loans was reduced to 75 percent, a measure aimed at lowering bank's cost of green loan operations and promoting green lending. In the future, we will conduct research and analysis to identify the sub-sectors in need of policy support and select the appropriate tools.

**-What actions did the Bank of Mongolia implement to incorporate the impacts of climate change into its policies and operations?**

-Climate change and environmental risks affect the goal of economic and financial stability. Consequently, central banks worldwide must evaluate the impact of these risks on the financial sector and the broader economy and take appropriate action. Since this is a new challenge, difficulties such as developing methods and localization from data have arisen. As for the Bank of Mongolia, we are working with technical assistance from international financial institutions to establish stress test methods to estimate the impact of these risks on the economy and financial sector and to develop and implement regulations necessary to strengthen our ability to overcome these risks. Our efforts will focus on fortifying green and sustainable financing systems, aligning policy and regulations with international standards, and adopting globally recognized principles. Moreover, in addition to identifying, assessing, and mitigating climate change-related risks in Mongolia's economic and financial

***Banks and financial institutions initiated the establishment of this fund, which came into existence with the backing of policy support from the Bank of Mongolia***

sectors, we are exploring policies to identify the opportunities and benefits of transitioning from a brown economy to a green one. This initiative is expected to become a medium-term priority in monetary and financial policy, guiding the direction of banking and financial sector policies.

**-How is the banking sector involved in supporting the "Billion Tree" national movement?**

-Banks and financial institutions are collaborating closely with the national "Billion Trees" movement in Mongolia. The "Mongolian Billion Tree Fund" was established within this collaboration to develop a sustainable financing framework for nature conservation efforts. Banks and financial institutions initiated the establishment of this fund, which came into existence with the backing of policy support from the Bank of Mongolia.

The "Mongolian Billion Tree Fund" is nearing its one-year milestone since inception, aligning with global standards prioritizing governance, transparency, and autonomy. Currently, One hundred thousand trees have been successfully planted through micro-project financing, with a completion rate of 60 percent. Additionally, plans are underway to plant over five hundred thousand trees this year as part of a large-scale afforestation endeavor. Beyond the sheer quantity of trees, this initiative yields numerous positive outcomes, such as establishing child-friendly surroundings, expanding green areas, providing ecological education, and generating economic benefits.

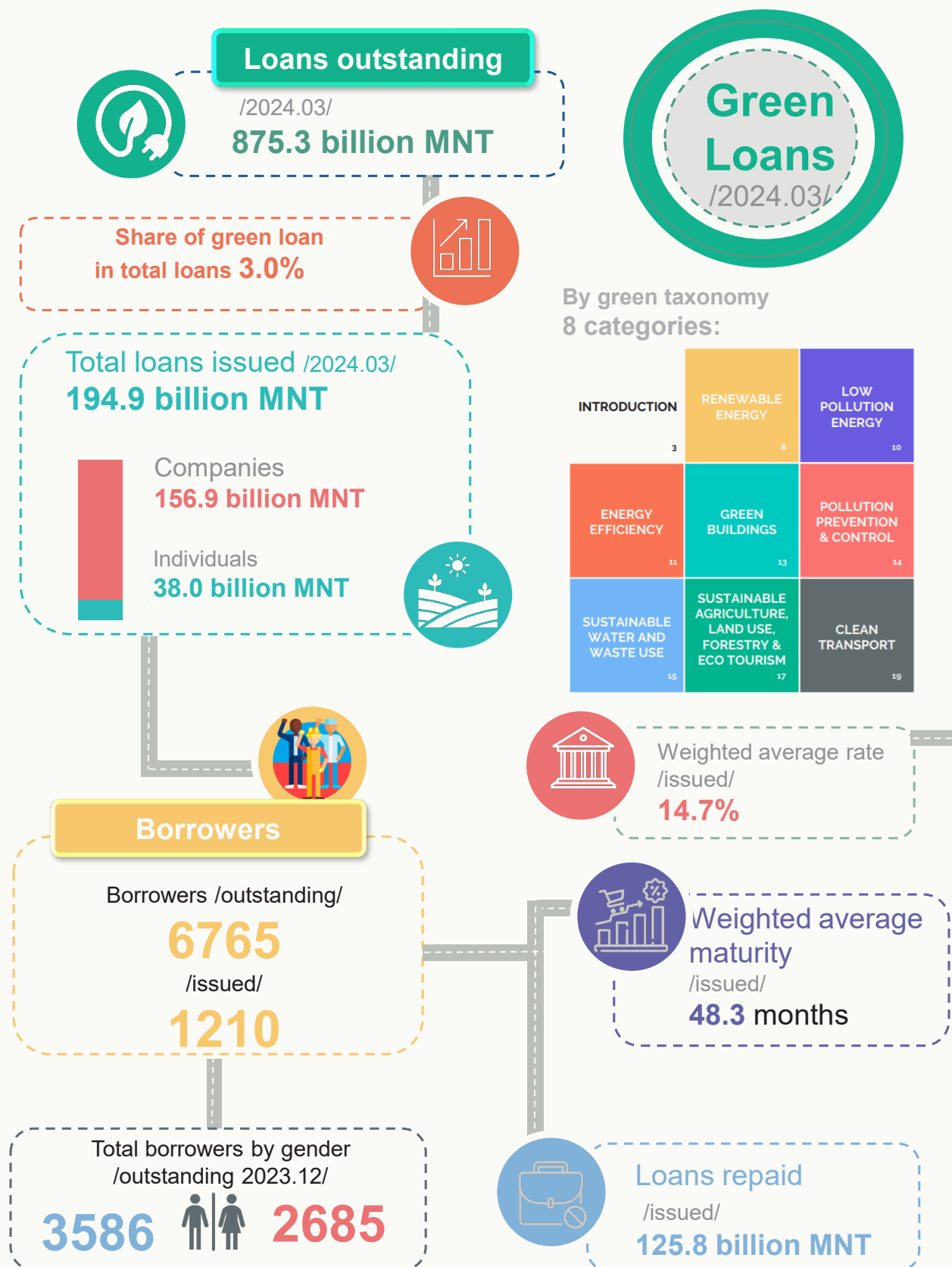
As the fund continues to operate smoothly and expand in the future, there's potential to enhance support for nature conservation on a broader level. Collaborating institutions, led by the Bank of Mongolia, diligently facilitate the fund's donation and financing of the initiatives. Rather than one-time funding and measures, the principle of paying more attention to the direction of positive side effects, such as the sustainability and feedback of tree planting and maintenance activities, and the beautification of green structures in urban areas, schools, and kindergartens, is being followed.

**-Thank you for the interview. I wish you all the best in your future endeavors. ■**





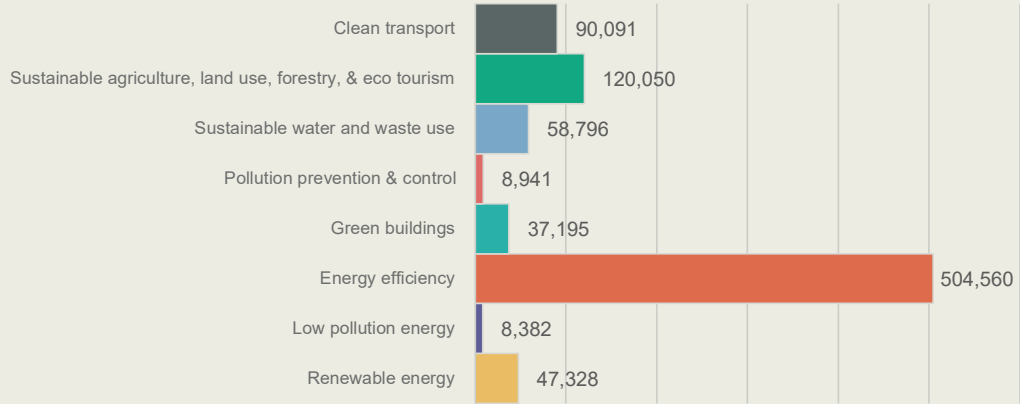
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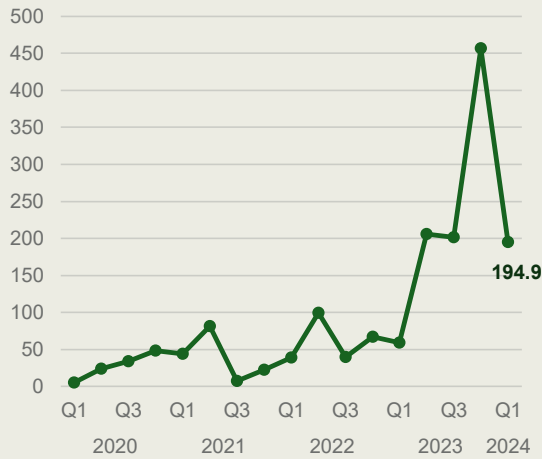
2024Q1

GREEN LOAN

Total loan outstanding  
thousand MNT



Total loan issued  
thousand MNT

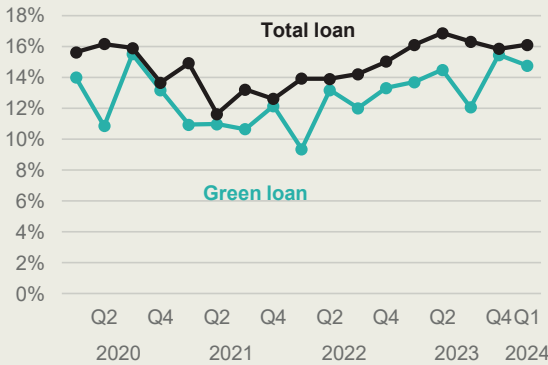


Total loan repaid  
thousand MNT

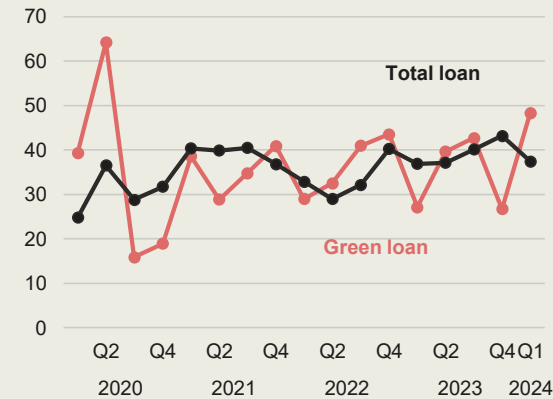


Newly issued

Total weighted average rate



Total weighted average maturity  
monthly



Source: Bank of Mongolia



## GREEN LOAN

2024Q1

## 1. Renewable energy

Storage systems for renewable energy	32			
Transmission lines for renewable energy systems	-			
Manufacturing of renewable energy equipment	0			
Other heat generation facilities	38			
Small- to medium-scale power generation facilities	0			
Power and heat generation facilities	3			
Solar thermal application facilities	567			
Small-scale distributed solar systems	1,843			
Power generation facilities (PV & CSP)	44,842			
Energy generation facilities	2			

## 3. Energy efficiency

Self-contained toilet solutions for ger areas, tourist camps	2,076			
Soil pollution reduction and remediation facilities and infrastructure	5,690			
Carbon capture and storage	-			
Production and deployment of clean heating appliances for households and MSMEs	748			
Industrial air pollution treatment, recycling facilities	427			

## 5. Pollution prevention &amp; control

Efficiency improvements in existing buildings	15,380			
Energy efficient building construction	228,539			
Energy conservation services	-			
Energy efficient products (end user)	30,527			
Energy-efficient lighting or equipment				
District heating	2,004			
Energy efficiency in energy generation, transmission and distribution systems	3,793			
Installation of CHP/co- or tri-generation equipment	1,100			
Energy efficient equipment and technology improvement	182,582			

## 7. Sustainable agriculture, land use, forestry, &amp; eco tourism

Sustainable hotel & camp management	3,173			
Products promoting eco-tourism...	780			
Natural land management	-			
Conservation of biodiversity and...	2,658			
Sustainable timber & pulp production	330			
Sustainable forest management	-			
Afforestation and reforestation	4,778			
Climate smart agriculture	287			
Sustainable textile processing and...	69,677			
Organic agriculture	38,366			

## 2. Low pollution energy

Dedicated charging for transportation and alternative fuel infrastructure	117			
Fuel switch in energy generation	334			
Waste to energy facilities	0			
Gas power & heat generation	7,931			
Heat & power generation	-			
Bio-energy product facilities	-			

## 4. Green buildings

Technology enabling the switch of Raw Materials	16,867			
Wastewater treatment facilities	77			
Composting facilities	28			
Waste collection, sorting and material recovery, re-use, and recycling facilities	20,796			
Solid waste management facilities	4,444			
Water recycling facilities	534			
Production of water saving, monitoring, storage and distribution	16,049			

## 6. Sustainable water and waste use

Ger area improvements	1,553			
Green infrastructure	-			
Manufacturing of green building materials and products	14,513			
Construction of new green buildings (commercial, public, industrial and residential)	21,128			

## 8. Clean transport

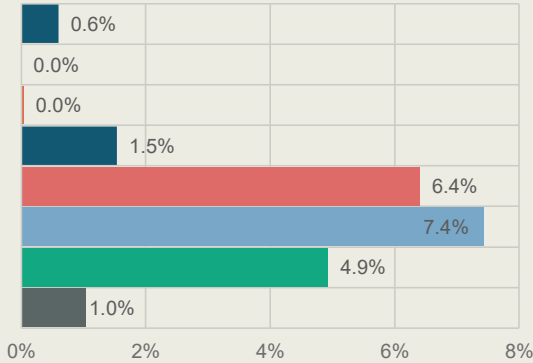
ICT that improves asset of transport mode	-			
Low carbon transport planning	-			
Low carbon transport infrastructure	34			
Public transport infrastructure	23			
Low carbon freight and cargo transportation	8,218			
Low carbon vehicles manufacturing supply chain facilities	144			
Low carbon vehicles purchase	81,672			

Source: Bank of Mongolia

2024Q1

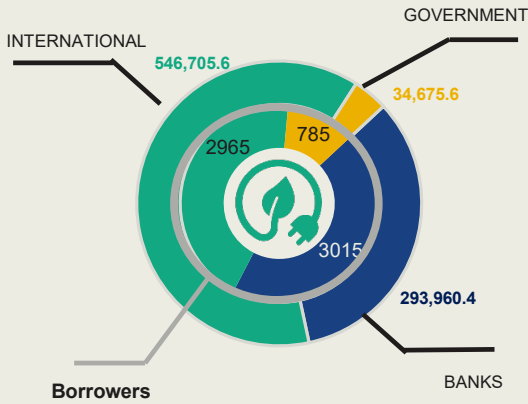
GREEN LOAN

Non-performing loans

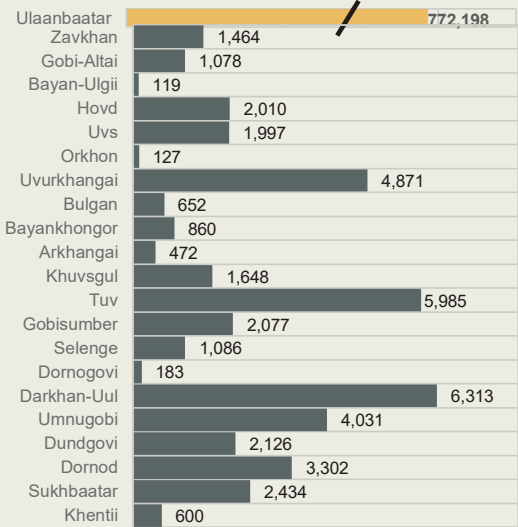


- Renewable energy
- Low pollution energy
- Energy efficiency
- Green buildings
- Pollution prevention & control
- Sustainable water and waste use
- Sustainable agriculture, land use, forestry, & eco...
- Clean transport

Loans outstanding by source  
thousand MNT

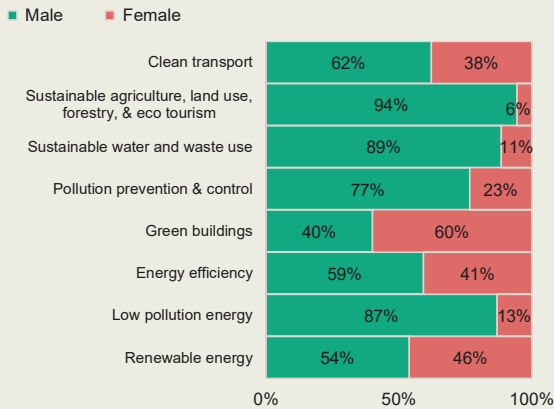


Regional distribution  
thousand MNT

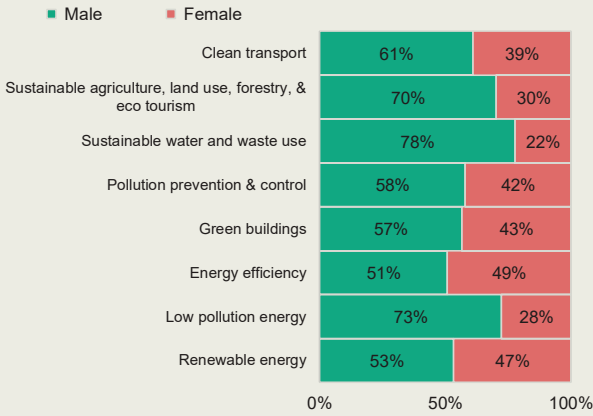


Green loans outstanding by gender, 2023Q4:

Total loans outstanding



Total borrowers



Source: Bank of Mongolia



Challenge

# Climate change in Mongolia

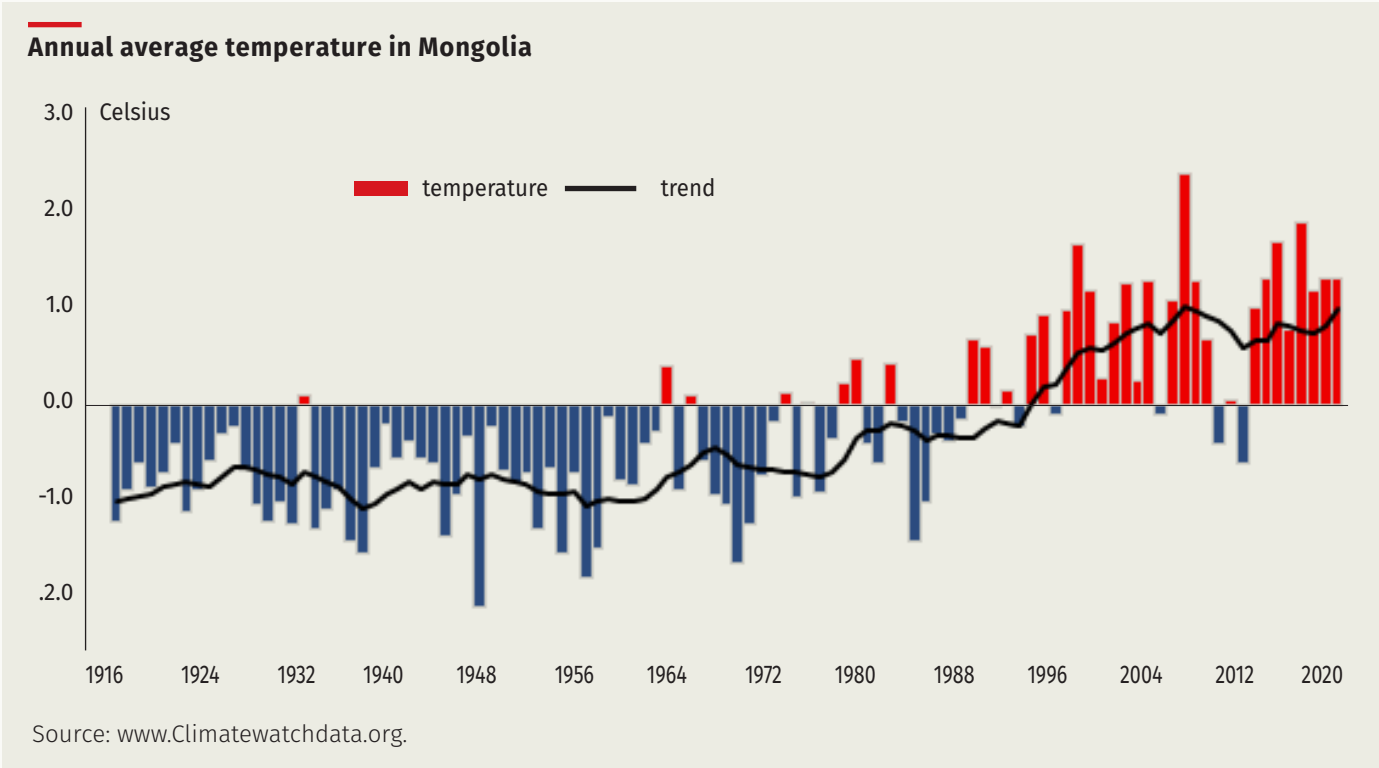
## Impacts of climate change

Global warming has been accelerating, causing harm to the environment, society, and the economy. The frequency of disasters such as earthquakes, floods, and storms is increasing, along with rising sea levels, resulting in escalating material costs year by year. The climate change-attributed costs of extreme weather from 2000 to 2019 are estimated to average US\$143 billion per year. In the last 80 years, the average temperature in Mongolia has risen 2.25 degrees Celsius, which is twice the global average. Additionally, from 1996 to 2010, there were an average of 2,400 natural disasters per year. However, since 2010, this number has increased to 4,300 annually,

*climate change-attributed costs of extreme weather from 2000 to 2019 are estimated to average US\$143 billion per year*

representing a 1.8-fold increase.

Global warming has melted the perpetual snow in high mountains, causing hundreds of rivers, streams, springs, lakes, and reservoirs to dry up. Furthermore, grassland production and species diversity have declined. Between 1992 and 2002, the ice sheet areas of the Kharkhiraa, Turgen, Munkhhaikhan, Tsambagarav, and Sair mountains decreased by approximately 30 percent. Mongolia is one of the 25 countries most vulnerable to global warming and climate change, owing to its geographical location and severe continental climate. Due to climate change, there has been a decrease in precipitation throughout the warm season, resulting in more frequent occurrences of drying, drought, and desertification. For instance, ►





Umngobi province. By July 2021, floods had claimed the lives of 37 individuals, including eight children.

- ▶ 76.9 percent, equivalent to 120.3 hectares of Mongolia's total territory has degraded, as of 2020. Of this, 4.7 percent of the total territory has undergone severe soil erosion, while 18.6 percent has undergone soil degradation.

Over the last 50 years, climate change has led to a 33-mm decrease in precipitation during the growing season in Mongolia. Simultaneously, rising air temperatures have increased surface evaporation by about 100 mm. These changes are currently the primary natural drivers of desertification in Mongolia. Over the past 20 years, annual plant productivity in Mongolia has decreased compared to the average from 1961 to 1990, with declines ranging from 5% to 13% in the central region and western parts of the eastern region. There is evidence that the contribution of climatic variation to productivity decline is notably greater compared to herd size. Additionally, climate change is worsening winter conditions in Mongolia and increasing the frequency of dzuds. During the 2009-2010 dzud, approximately 20% of the total livestock died, affecting 28 percent of Mongolia's human population. According to the forecast for the first season of 2024, 9.2 percent of the total livestock, or 5.9 million animals, have died.

In Mongolia, while comprehensive statistics on the social and economic costs of natural disasters are not available, dzuds impose considerable financial burdens on the agricultural sector. The agricultural sector faces significant challenges

**Mongolia's NDC sets a mitigation target of a 22.7% reduction in total national greenhouse gas emissions by 2030**

due to the rising frequency and severity of dzuds, exacerbated by the warming and drying climate, particularly affecting rural and local communities. Consequently, the deterioration of pastures and an increase in extremely hot days prevent animals from achieving full fattening during the summer and autumn, reducing their resilience to dzud situations.

### Strategies for combating climate change

Climate change was first addressed internationally in 1992 with the adoption of the "United Nations Framework Convention on Climate Change" (UNFCCC) during the United Nations Conference on Environment and Development. The Kyoto Protocol, adopted in 1997, served as the main document for implementing the convention. However, despite its adoption, many countries ▶

	Duration of the disaster (dzud)	Losses of livestock	Total costs incurred
Sainbayar & et al. (2021) Assessment of the frequency of Dzuds in the livestock sector of Mongolia	1944-1945	9.2million heads	
	2000-2001	4.2 million heads	₮162.5 billion
MOFA, CPR (2017) Recommendations for improving drought/dzud triggers in consideration of herders' livelihoods and preparedness	1999-2000	11.2 million heads	₮333 billion
	2009-2010	9.7 million heads	₮527 billio
	2016	1.1 million heads	
Erdenetuya (2004)	Annual average	0.3 million heads	\$18.5 million



- failed to prioritize its provisions. As the frequency of natural disasters such as earthquakes, floods, and extreme heat increased, and the negative effects of climate change became more pronounced, the urgent need for more effective action became evident. Hence, in 2015, 196 countries worldwide outlined their "Nationally Determined Contributions" (NDCs) with the aim of constraining the average global temperature rise to below 2 degrees Celsius from pre-industrial

*In July 2016, heavy rains caused extensive flooding in districts 1-8 and 12-19 of the Bayanzurkh district*



levels, with a strong aspiration to limit it even further to 1.5 degrees Celsius. Mongolia's NDC sets a mitigation target of a 22.7% reduction in total national greenhouse gas emissions by 2030, compared to the projected emissions under a business-as-usual scenario for 2010. Alongside this target, actions and measures to remove GHG emissions by forests are determined, setting Mongolia's total mitigation target at 44.9% of GHG emission reduction by 2030.

To achieve their national objectives, countries are implementing various policy measures tailored to their unique characteristics. Specifically, 46 countries worldwide are enacting regulations, such as establishing carbon markets and implementing carbon taxes, to mitigate climate change. While efforts to price carbon at the policy level are commendable, there is a pressing need to increase the carbon price.

Given that Mongolia's economy heavily relies on mining and agriculture, with mining products constituting about 90% of total exports, the country faces a high transition risk. If countries successfully implement measures to reduce greenhouse gas emissions according to the goals outlined in the NDP framework and our country's coal exports decrease as a result, there is a significant risk of impact on our economy. Therefore, there is a need to devise and implement large-scale actions aimed at both adapting to climate change and mitigating the transition risks over the medium and long term.

### **The following are some of the documents addressing climate change:**

**Green Development Policy 2030:** To address the challenges of climate change, rapid population growth, rising consumption, and resource depletion, the United Nations has advised countries to develop and implement green economies and green development policies tailored to their specific contexts. Therefore, in 2014, Mongolia adopted the 'Green Development Policy,' which aims to foster sustainable economic growth and create conditions for environmental sustainability. ►



► **Vision 2050:** The long-term development policy of Mongolia. Vision 2050 represents Mongolia's long-term integrated development policy, approved in 2020. This comprehensive document is structured into three main components, with its outcomes assessed against specific criteria, and is to be reported to the Mongolian Parliament every five years. Green development is among the nine goals outlined in the "Vision 2050" framework, focusing on enhancing social development, economic growth, and the quality of life for its citizens

The Bank of Mongolia (BOM) is actively addressing climate change risks by prioritizing the financing of environmentally friendly loans and bolstering green lending within the banking sector. The BOM has successfully implemented policies and measures aligned with its monetary policy guidelines. In 2024, as part of the Bank of Mongolia's 'Big Data' project, efforts are underway to establish an integrated system for measuring, reporting, and verifying the outcomes of green and sustainable financing. The implementation of this system has begun, enabling banks to access information on each green loan from a secure, centralized platform, thus reducing costs associated with green loans and stimulating increased demand.

The 1966 flood in Ulaanbaatar submerged the Industrial Plant and halted operations of the power plants

**Climate change exacerbates winter severity and increases the frequency of dzuds**

To successfully fulfill our country's commitment to reducing greenhouse gas emissions, it is necessary to increase the participation of the private sector and international organizations alongside government measures. Commercial banks have been proactive and successful in attracting green financing from the international market. This is crucial for achieving the target of allocating 10 percent of total loans as green loans by 2030. ■

**Average temperature in Mongolia**

**has risen**

**2.25**

**degrees celsius in the last 80 years**

*This is twice the global average*

**Number of natural disasters**  
per year

1996-2010

**2400**

since 2010

**4300**

1.8-fold increase

**Total area of Mongolia affected by severe degradation /2020/**

76.9 percent or

**120.3**  
hectares

Severe erosion

**4.7%**  
hectares

Degradation

**18.6%**  
hectares



## Khan Bank

# Munkhtuya.R:Khan Bank has approved its Sustainable Development Policy

*Mongolian Economy spoke with Munkhtuya.R, the CEO of Khan Bank.*

**-After being appointed CEO of Khan Bank, you approved a significant policy document called the Digital Strategy. Could you please introduce the bank's digital development to our readers?**

-Banks are rapidly introducing digital products and services with minimal human intervention. These steps align us with global development goals while implementing our Sustainable Development Policy. Digital products significantly reduce paper usage and save customers time. We have started preparing an impact report, which measures the amount of savings businesses achieve from using green loan products. In summary, we are working with our customers to implement our Sustainable Development Policy.

**-Sustainable and green financing policies are evolving rapidly worldwide. Your bank is actively engaged in green finance policies. Could you share your experiences about how Khan Bank implements its Sustainable Development Policy?**

-Khan Bank joined the UN Global Compact and began issuing sustainability reports in 2019. We initiated efforts to educate our employees about sustainable development, forming a working group to educate others about what the 17 Sustainable Development Goals represent and what needs to be done to bring our operations to the appropriate level. After 18-19 months of analyzing the 17 Sustainable Development Goals, we approved Khan Bank's Sustainable Development Policy in 2020. A sub-working group was also established to support the policy's implementation. As a funding organization, our policy is based on four core principles: sustainable financing, sustainable operations, social responsibility, and transparent public reporting and cooperation.



**Khan Bank's Sustainable Development Policy is very close to Mongolian culture**

Ninety-nine percent of Khan Bank's transactions and 70 percent of consumer loans are now digital. This shift was communicated to employees to show how their roles would change. We introduced a three-year program to adjust our staff to new roles and provided Digital Banker and Ethical Banker training. As a result, some employees at rural branches can now remotely perform some tasks for our central office. Of our 1,700 employees, 280 district and rural branch employees work remotely. ►

► On January 1st of last year, we started a hybrid working model for rural branch staff to work remotely. We created a Smart Office environment to maximize individual productivity. Businesses require financial, human, and time resources to operate sustainably. This involves efficiently managing these resources, which are always limited.

**-To what extent do the public and businesses understand the importance of green financing? What activities are you conducting to educate the public?**

-Each of the 17 Sustainable Development Goals is about living healthy and right. When talking about the SDGs, people tend to see them as large-scale global or government policy topics. However, they are relevant to businesses and ordinary people.

Mongolia's pristine nature has been passed down to us by our ancestors. For individuals, taking care of the environment, improving it if possible—or at least not degrading its natural state, is a way to implement sustainable development. Living well and right, which is at the center of the Sustainable Development Policy, is very close to Mongolian culture.

Mongolians have traditionally cared for the environment, cleaning their campsites before moving, removing stakes, and filling holes. In modern life, we learn to save water and electricity in childhood.

For businesses, ensuring long-term, sustainable operations requires aligning their vision and planning with a sustainable development policy.

**-What role do your bank and the financial sector play in implementing the Paris Agreement?**

-Policies have become clearer since the Paris Agreement's ratification in 2015. Commercial banks, lending banks, and other financial institutions collaborate with major development financing banks to achieve their goals. We have secured nearly 1 trillion MNT in loans from over 20 international financial institutions for this purpose. That makes us responsible for measuring and reporting our contributions to the Sustainable Development Goals quarterly. If we can measure progress, let us do it nationwide and create national

***We created a Smart Office environment to maximize individual productivity***

green data. Financial institutions should participate in this effort. Financial institutions have certain obligations, especially concerning greenhouse gas emissions reduction. Mongolian commercial banks have committed to making green loans 10 percent of their loan portfolio by 2030.

Non-banking financial institutions licensed by the Financial Regulatory Commission have committed to making five percent of their total loans green by 2030. Since our bank started this endeavor considerably earlier, we share our experience. Last year, during the Sustainable Development Forum, we held a Green Bonds session, covering how to attract green investments and convert them into green loans. This year, Khan Bank became a leader in sustainable finance, and I was elected Chairman of the Sustainable Finance Association's Board of Directors. Our association has set goals for what we can do as a country to increase sustainable finance. We initiated the creation of a national green data information system, which is supported by the Bank of Mongolia in its 2024 State Monetary Policy. As the project initiator, we're working with other commercial banks to establish this green database.

**-What are Khan Bank's future policies, values, and strategies?**

-Our bank underwent a brand refresh in 2022, redefining our vision, mission, slogan, and values. Our vision includes growing with our customers. One of our core values is being a leader in sustainable development. In summary, our policy is aligned with implementing the Sustainable Development Goals with our customers. The Sustainable Development Policy is about growing together and developing the right habits for our lives and work.

Khan Bank issued its first green bond on the international market last March. Before issuing it, we gave a presentation in December to attract domestic investors, and interest was high. The trading of our bond on the stock exchange was very active. We fulfilled our funding requirement in six minutes and 45 seconds, which shows great interest and potential. Investors are attracted to interest income and the idea of contributing to the country's green development. ■



## State Bank

# Sustainable Development Policy of the State Bank



The State Bank has embraced green development and rapidly advanced its efforts to support environmentally friendly and sustainable practices in recent years. With branches across Mongolia, the bank is committed to promoting responsible business expansion and making a positive impact on both the economy and the environment through eco-friendly financial products and services.

In 2023, the State Bank joined the United Nations Global Compact and the Partnership for Carbon Accounting Financials. By joining the United Nations Global Compact, we signal our commitment to integrating environmental, social, and governance (ESG) considerations into our business operations. We also aim to support projects aligned with the Sustainable Development Goals and contribute to a more sustainable and inclusive economy.

Transitioning from a commercial bank to a public joint-stock company in 2022 under the Banking Law,

**The State Bank supports initiatives such as water conservation, grey water usage, reduction of chemical and solid waste, and lowering energy consumption**

the State Bank successfully issued 5.71 percent of its shares through primary market trading, raising 25.4 billion MNT from 7,421 shareholders. In the same year, the bank fulfilled the criteria for calculating the securities price index set by the Mongolian Stock Exchange, and earned its place in the updated TOP-20 list. With 500 branches and 4,000 employees nationwide, the State Bank is dedicated to implementing its sustainable development policy while providing comprehensive banking services to its 2.3 million customers. This approach leverages advanced technology to foster accessible development across Mongolia.

To enhance corporate governance, good practices have been introduced, including the establishment of a Governance Office under the Board of Directors in the first quarter of 2023. Additionally, new offices such as the Sustainable Development Office and the Sustainable Development Committee have been set up. ▶

► Moreover, the State Bank is actively leveraging financial incentives to align with nationally determined objectives aimed at reducing greenhouse gas emissions and mitigating the adverse impacts and risks associated with climate change under the Paris Agreement of the United Nations Framework Convention on Climate Change. This includes supporting initiatives in renewable energy, promoting energy-efficient technologies, and enhancing livestock quality and profitability within the agricultural sector through financial products and services.

The State Bank is committed to supporting climate change adaptation efforts, including initiatives such as water conservation, grey water usage, reduction of chemical and solid waste, and lowering energy consumption. The bank employs the Partnership for Carbon Accounting Financials method to measure greenhouse gas emissions and transparently reports its sustainable development initiatives, aligning with the 8 principles of the "National Sustainable Finance Roadmap". Furthermore, with the aim to foster a safe and clean environment for citizens, the State Bank became member of the Mongolian National Waste Recycling Association. This collaboration includes training State Bank employees on waste sorting practices and placing recycling bins on each floor of the bank's headquarters, ensuring that waste is properly delivered to recycling facilities.

Within the business plan framework, tenders were announced and contracts signed for consulting services to calculate the Bank's greenhouse gas emissions. This initiative is crucial for advancing our long-term sustainable development strategy. The consulting services included Scope 1 and 2 greenhouse gas calculations across the Bank's headquarters, branches, and units, along with data collection and preparation of a greenhouse gas emissions report compliant with the International Greenhouse Gas (GHG) Protocol. This report will guide the bank in formulating a strategy to reduce its emissions.

In its journey towards becoming a green office, the bank is focused on fostering environmental awareness and attitudes among its employees. To

***In 2023, the State Bank joined the United Nations Global Compact and the Partnership for Carbon Accounting Financials***

this end, informational posters on conserving bank utility costs and energy efficiency tips are prepared and circulated weekly via email to all staff members.

## **Sustainable finance**

The State Bank collaborates with ministries, international financial institutions, and organizations dedicated to green and environmentally friendly projects to provide products and services focused on sustainable development. By 2023, the bank supported 477 borrowers with a green loan portfolio totaling 25.7 billion MNT, representing 3.2 percent of the entire banking system's green loan portfolio.

To further enhance product offerings aligned with green taxonomy, to develop comprehensive criteria for green loans and to expand the overall loan portfolio the bank has refined and diversified the terms of "Loan products aimed at sustainable development" and introduced such products to the market. Consequently, customers can now access discounted and flexible loans for energy-efficient home appliances, hybrid and natural gas vehicles, and energy-efficient home renovations. Such loan packages have increased by 5.0 billion MNT compared to the previous year.

## **Establishing transparent reporting process**

The State Bank sends biannual reports on its Sustainable Financing Program progress to the Mongolian Sustainable Finance Association. In 2019, Mongolia's Financial Stability Council approved "Green Taxonomy" criteria for green loans and investments. Quarterly, the State Bank reports issuance, payments, and balances of green loans across eight categories to the Bank of Mongolia. As a publicly traded company, the bank submitted its 2023 environmental and social governance report to the Mongolian Stock Exchange following regulatory guidelines approved by the regulatory organizations.

The State Bank is committed to global climate action, leading the financial sector in nurturing and protecting the mother earth we all love. Together, we aim to define clear sustainable development policies and goals and work productively towards them. ■



## Billion Tree Fund

# The "Billion Tree Fund" aims to develop Mongolia's forestry sector into a thriving industry in the long term

The "Billion Tree Fund" has set an unprecedented benchmark in Mongolia, evolving beyond a conventional project financier to emerge as a policy institution. With the support of banks, its mission extends to creating a national financing framework for the forestry industry. The foundation's board members have encapsulated their operational objectives concisely: "We aim to bolster the forestry sector through market-based principles, offering appropriate economic and financial incentives. We strive to fortify the sector's groundwork, facilitating its accelerated development."

After President of Mongolia Khurelsukh.U pledged to implement the "Billion Tree" national program during a UN platform, the Mongolian Banking Association and commercial banks united to support his initiative. They established the "Billion Tree Fund" in 2022 as an irrevocable and non-profit fund dedicated to environmental protection.

In 2022, Mongolia's commercial banks collaborated to establish the "Billion Tree Fund," marking a significant departure from traditional financial metrics. Rather than measuring success solely in monetary terms, this fund evaluates its effectiveness based on the number of trees planted. With a focus on ecological outcomes, the fund's overarching objective is to transform the forestry sector into a sustainable economic framework. Key performance indicators include the number of seedlings planted, cultivated areas and afforested groves.

Forests often described as one of the most breathtaking wonders of our planet cradle humanity within their embrace. Yet, we frequently overlook their intrinsic value as a steadily growing and invaluable asset, which can be appreciated simply by beholding their beauty.

Over three decades ago, Mongolia primarily utilized its forests for agriculture, supporting over 15,000 workers across more than 30 major wood processing and preparation facilities. This sector contributed 15 percent of the nation's industrial output, with 20 percent of its products exported.

**Over three decades ago, Mongolia primarily utilized its forests for agriculture, supporting over 15,000 workers across more than 30 major wood processing and preparation facilities**

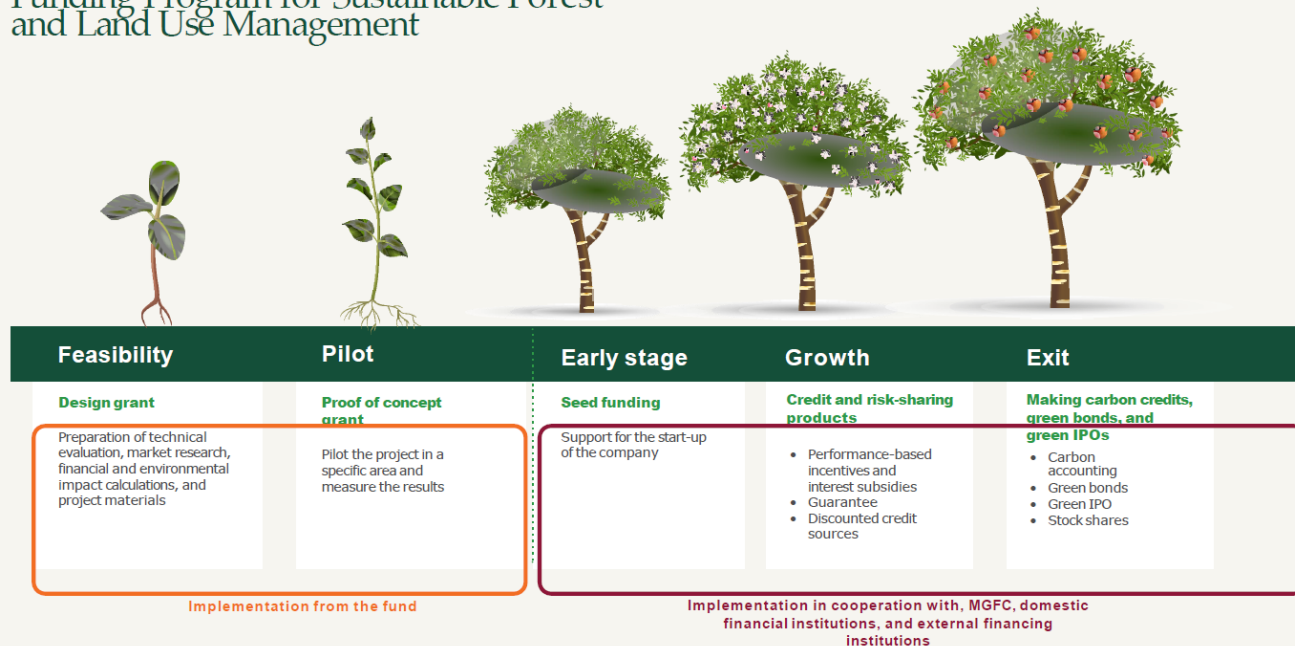
Today, we are refocusing our efforts on revitalizing the forestry sector to reach these historical heights once again, with an emphasis on the "Billion Tree" national program initiated by the President of Mongolia. This ambitious endeavor is supported by the innovative "Billion Tree Fund," representing a novel approach where commercial banks contribute financial resources to finance projects aligned with the program's objectives.

On the initiative of the President of Mongolia, the nationwide "One Billion Trees" initiative has been launched in 2021 with the primary objective of mitigating climate change, desertification, and land degradation. Within the framework of the national movement, major public and private sector enterprises and organizations have pledged their commitment to actively contribute. In fulfillment of the commitment to plant, maintain, and protect 88.6 million trees, the banking sector is actively engaged in the endeavor to plant 50 million trees. In line with the banking sector's commitment, the Billion Tree Fund was established in March 2022, initiated by the Central Bank of Mongolia and the Mongolian Bankers Association, with fund management entrusted to the Mongolian Sustainable Financial Association (MSFA).

In the first year, the Billion Tree Fund aimed to establish foundational operations, adhere to international fund benchmarks, cultivate principles grounded in autonomous, transparent, and judicious governance, facilitate policy harmonization within climate change adaptation, and develop a robust financial framework within the environmental sector.

The Billion Tree Fund stands out for its distinct approach aimed at expanding the financial landscape of the environmental sector, particularly in forestry. This challenges the conventional practice of exclusively relying on government budgets or international loan assistance for the executing environmental initiatives. Instead, the fund seeks to enhance the array of innovative financing mechanisms tailored to the sector's unique requirements, including non-repayable domestic funding sources. ■

## Funding Program for Sustainable Forest and Land Use Management



From 2022 to 2024, 76 projects supported the planting and care of 1.5 million trees across 592 hectares.

## Billion Tree Fund

### Vision

- To enhance private sector engagement in environmental conservation and climate change mitigation by decreasing greenhouse gas emissions, raising funds, and creating a nationally and internationally recognized reference fund.

### Mission

- To ensure the strategic planting of trees in suitable locations, for their intended purpose, using appropriate techniques, and to establish a sustainable financial framework for the forestry sector.

### The principles:

- Policy coherence
- Supporting the “One Billion Trees” national movement as well as other global and domestic objectives related to climate change, desertification, land degradation, and forestry.

### Transparent, independent, and good governance

- Applying the standards and best practices of global nature conservation funds while ensuring that the Billion Tree Fund's operations adhere to the principles of transparency, independence, and good governance.

### Sustainable financial mechanism

- Increasing support for economically beneficial projects, raising funds from additional sources, and creating a sustainable financing mechanism for the forestry sector.

### Main areas of activity

#### Sustainable forest & land use financing program

- Developing financing products to support the added value chain of the forestry sector and to support enterprises and organizations operating in the sector

- Supporting the application of new technologies and innovations in the forestry sector

### Small grants program

- Funding of forest maintenance, restoration, and horticulture projects on public lands
- Funding of pilot projects for policy and scientific research and innovative technologies
- Funding of sustainable development, ecological education, and enlightenment projects

### Capacity building program

- Implementation of a scholarship program for the training and empowerment of forest industry experts and personnel
- Capacity building of enterprises operating in the forestry sector through financial and business management training



## Solution

# The forestry sector can be developed into a major industrial sector



**SHAGDARSUREN.Z**

*Advisor of the Mongolian Bankers Association, and Chairman of the Board of the "Billion Tree Fund"*

*As Chairman of the Board of Directors of the "Billion Tree Fund," he has played a pivotal role in drafting numerous legal reforms within the Mongolian banking and finance sector. A graduate of the University of Tokyo, Japan, and the University of Michigan Law School, United States, he brings a wealth of expertise. His specialization extends beyond economics, banking and finance, capital markets, and corporate governance, with extensive experience gained from working in globally recognized banks and financial institutions.*

Over three decades ago, Mongolia's foresting sector constituted a significant portion of the national GDP. With more than 30 extensive wood harvesting and processing facilities in operation at the time, it contributed nearly 15 percent to the industrial output, with about 20 percent of its products being exported.

However, the privatization of large logging farms and factories in 1990 led to the termination of employment for 15,000 individuals, including specialists. Suppose the banking and financial sector, a vital player in Mongolia's economy, actively supports the forestry sector and increases capital flow. In that case, there is potential for it to reemerge as a significant industrial sector, comparable to its prominence over three decades ago.

When people think about the forestry sector, they often do not see the importance of the economy or the ecological significance. Profiting from forests

***There is a clear need for alternative financial products tailored to this industry's specific demands and requirements***

entails more than simply felling trees for sale; it involves sustainable forest management. This includes collecting high-quality seeds from native trees in Mongolia at the right time, propagating trees according to standards, reducing forest fire risks through controlled thinning, manufacturing wood products, and responsibly utilizing young trees for the furniture industry. It's a meticulous ecosystem aimed at replanting the harvested trees. In essence, there's potential for income generation through responsible forest use while also restoring 78% of aging forests.

The stringent requirements of traditional bank business loans, such as the need for collateral, interest payments, and repayment terms, pose significant challenges for environmental restoration, afforestation, and tree breeding organizations. Consequently, very few forestry and tree-breeding organizations can access business loans.

Essentially, there is a clear need for alternative financial products tailored to this industry's specific demands and requirements.

The "Billion Tree Fund" focuses on two key areas in response to this need. Firstly, it aims to challenge the conventional perception of commercial bank loans, advocating for more flexible lending practices that accommodate the unique needs of the forestry sector.

Secondly, it strives to enhance the economic viability of the forestry industry. Commercial banks are actively researching the development of "green loan" products designed specifically for forestry businesses, making promising strides in this direction. Concurrently, efforts are underway to explore the potential for producing various products derived from forests, including wild fruits, nuts, and various health, beauty, and household items. Production initiatives in this regard have already commenced. ■

## CEO

# The Billion Tree Fund has the potential to evolve into a leading fund specializing in financing nature conservation efforts



**BAYARMAA.B**

*Executive Director of  
The 'Billion Tree Fund'*

operation will remain steadfast and reliable. We are delighted that policy support organizations, donor banks, and our partners have trusted us and are supporting our efforts to undertake more expansive initiatives.

Looking ahead, it is undeniable that the 'Billion Tree Fund' will evolve into a global fund that extends beyond the forestry sector, encompassing large-scale nature conservation projects within our children's lifetimes. This vision represents the future goal of the 'Billion Tree Fund.' ■

*As part of the national movement spearheaded by the President of Mongolia, the "Billion Tree Fund" actively identifies funding gaps within the forestry sector, assesses the types of financial products that can be beneficially supported, and strategizes the optimal allocation of funds. This approach was emphasized by the Foundation's Executive Director, Bayarmaa.B, at the outset of the interview.*

The banking industry excels in capital raising and management, making it a strategic choice for sourcing funds. Consequently, our focus has been on garnering support from numerous countries, underscoring the importance of establishing a robust foundation for our fund. International investors and donors prioritize reliability when providing funding, with critical criteria including good governance, transparency, independence, and professionalism. Bearing this in mind, the "Billion Tree Fund" announced its project selection for 2023 in a transparent, open, and independent manner, adhering to the principles upheld by international funds. With the assistance of a dedicated team comprising over 20 industry experts, projects were meticulously selected through a rigorous seven-step process.

The fund's foundations have been laid with diligence, and this commitment to principled

## Project selection process



## Point of views

# The school environment should prioritize health, cleanliness, and eco-friendliness

**SUNJIDMAA.R,**  
Senior Specialist of the  
Ecological Education  
Center of NUM

"Since the Billion Tree Fund announced a call for proposals and began providing information to the public, it has become that they support people who have been actively engaged in their fields for many years, demonstrating dedication with their faith and passion. They successfully implement projects that universally advocate for the planting,

fostering a genuine intent in planting tree seeds in the minds of children and youth. Within this fund, there exist colleagues who exhibit exemplary professionalism. From this team, I draw a sense of optimism and faith that Mongolia is cultivating a culture of supporting the right things, the right people, and the right work."

**TUMENBAYAR,TS,**  
Chairman of the  
Board of Directors of  
Luxlandschaft LLC

"With the funding of the Billion Tree Fund, we planted trees and lawns outside six state-owned secondary schools in Ulaanbaatar. The school

environment should prioritize health, cleanliness, and eco-friendliness. Children learn well in a comfortable and green environment.

**BUYANBAATAR.A,**  
Director of  
Agroecology School  
of Agricultural  
University

One of the main factors in advancing the "One Billion Tree" national movement initiated by the President of Mongolia was the Billion Tree Fund, which was established by banks and financial institutions. We also had a lot to learn as we went through the many stages of project selection

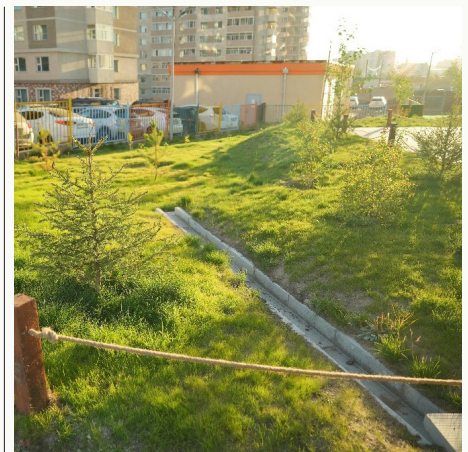
interviews, document improvements, and on-site inspections. After all this hard work, I am happy that our project was selected, and financial and forestry sector professionals encouraged us to work even harder in the future.



The reference project for establishing agroforestry on 1 hectare of land, 'Orgil Bulag,' implemented by the Jargalant Trust Cooperative in Naran Bag, Bayandalai soum, Umnugovi province



During the practical training on 'Fruit tree grafting and care' conducted at Erhet Farming and Tree Nursery in Bayangol soum, Selenge province in the summer of 2023.



In 2024, this project expanded to include eight kindergartens, schools, and two hospitals, in addition to the 20 state-owned schools in Ulaanbaatar that initially implemented the initiative to enhance their green facilities.



In 2023, Green Financing yielded consequential outcomes as follows:

2,543.880 tons

$\text{CO}_2$  equivalent of greenhouse gas emission was reduced.

This equates to growing

183,274,544

Deciduous and coniferous trees for over 10 years.

If 300 trees Were planted in an 1 hectare land, total of 183,274,544 trees would cover

Ulaanbaatar city 1.6 times.



# The development of Mongolia's sustainable finance ecosystem



**NOMINDARI.E**  
CEO, Mongolian Sustainable  
Finance Association

Sustainable development has been widely discussed for more than a decade and has now become the most significant challenge facing humankind. It encompasses issues such as living in harmony with the environment, preserving the balance of society and the economy, using limited natural resources appropriately, considering the needs of present and future generations, and combating global warming and climate change. In this context, the Paris Agreement and Sustainable Development Goals were adopted by countries in 2015, with each country determining its national contributions and goals. The estimated financing required to meet these goals was 113.2 billion USD.

Since government, fiscal policy, and development financing alone are insufficient to accumulate such an amount of funding, the need for involvement from private sector organizations, including banks and financial institutions, was underscored. These entities must take on a prominent and central role in the shift towards sustainable development. Subsequently, the concept and momentum of sustainable finance have undergone rapid development.

In 2013, with leadership and guidance from the Mongolian Bankers Association and banks, Mongolia recognized the potential to address environmental and social issues through financial services. Consequently, in November 2013, the "Joint Declaration for the Development of the Socially

***We have successfully laid the foundation of the "Integrated sustainable finance ecosystem"***

and Environmentally Friendly Sustainable Finance Policy of Mongolia" was signed. Subsequently, the "Mongolian Sustainable Finance (SF) Initiative" was launched and implemented with the support of organizations such as the International Finance Corporation (IFC), Dutch Development Bank (FMO), Bank of Mongolia, Financial Regulatory Commission (FRC), and the Ministry of Environment and Tourism.

In doing so, banks adhered to the principle of 'non-competition and cooperation' on sustainable finance matters, and environmental and social protection. They agreed to reduce the negative environmental and social impact caused by business activities through loans and financing, protect the financial sector from risks, promote green solutions and projects, and unlock new markets and resources. It was decided that banks would work towards the vision of becoming the center of knowledge in sustainable finance and lead in the region.

However, in 2018, the need emerged to introduce sustainable finance to the non-banking sector and the capital market, not limited to the banking sector alone, and to work with single standards. Consequently, the Mongolian Sustainable Finance Association (MSFA) was officially established as a result of the MBA's Board of Directors' decision. Later, financial institutions other than banks joined the SF principles, and currently, the MSFA is operating with 42 member organizations.

In order to successfully introduce sustainable finance, the efforts of one person, one organization, and one sector are not enough. It was important to ensure the understanding, cooperation, and coordination between the government, private sector, international organizations, and civil society. Thus, in the past 10 years, we have successfully laid the foundation of the "Integrated sustainable finance ecosystem" within the SF program.

It was deemed important to prioritize the establishment of consolidated definitions, ►



► methodologies, and standards for the implementation of sustainable finance. Consequently, several key framework documents were developed and approved in Mongolia, aligning with international standards and good practices. These include the Principles of Sustainable Finance (SF) of Mongolia and accompanying industry guidelines (2015), the National Sustainable Finance Roadmap (2022), Comprehensive Environmental and Social Risk Management System Guidelines (2016), Environmental and Social Risk Management Methodology for Banks (2023), Environmental and Social Risk Management Methodology for NBFIs (2022), Green Taxonomy (2019), Sustainable Development Goals (SDG) Finance Taxonomy (2023), Comprehensive Gender Equality Guidelines for Financial Institutions (2021), Green Bonds

**As of the third quarter of 2023, the balance of loans issued according to the Green Taxonomy reached 613.0 billion MNT**

Regulation and Guide (2021), and Guidelines for ESG Reporting (2022). As a result, we were able to create the foundational environment for increasing sustainable finance flows.

Specifically, by introducing the Green Taxonomy and the SDG Finance taxonomy, banks and financial institutions were enabled to identify green projects that would bring a positive impact on society, measure their loan portfolios, and calculate integrated industry statistics. In addition, Mongolia became one of the first countries to adopt this type of taxonomy. As of the third quarter of 2023, the balance of loans issued according to the Green Taxonomy reached 613.0 billion MNT, making up 2 percent of the total loan portfolio. Also, by developing comprehensive guidelines, exemplary policies, and assessment methods within the ►



- Environmental and Social Risk Management System (ESRMS), all financial institutions started conducting environmental and social risk assessments when granting all types of business loans with a value of more than 50.0 million MNT and a term of more than 12 months. A system has been established that, depending on the level of the risk, imposes environmental and social requirements on customers, includes them as conditions in the loan agreement, and reviews its fulfillment. As of the first half of 2023, ESG assessment has been performed on a loan portfolio of 4.4 trillion MNT in total.

Furthermore, in order to ensure and encourage the implementation of the above standards, policy support has been created. It includes selection of the best SF institutions, green loan swap agreements, discounts on appropriate ratio criteria, green loan interest subsidies and guarantees, and accelerated registration of green bonds. These became a real incentive to attract green funds from the international markets and increase the loan portfolio.

For instance, green loan funds drawn by MSFA member banks reached 2 trillion MNT by mid 2023. Additionally, two domestic banks received authorization from the Green Climate Fund (GCF) and Mongolia's first green bonds were successfully issued on both the foreign and domestic markets.

In terms of green products, special projects aimed at energy-efficient housing, home insulation, sustainable textiles, and agriculture were implemented after conducting research on the demand for green loans. As a result, new green market opportunities were unlocked, and more than 50 green loan products were offered by MSFA member organizations to the public.

In addition, with the support of international partners, a diverse range of educational experiences was developed to improve capabilities and develop the capacity of the banking sector employees. It includes experiential trips, coaching for trainers, in-person classroom training, online learning platforms and elective study courses at universities. More than 25,000 people cumulatively were trained. Specialized positions and units were also created at MSFA member organizations.

***Recognizing the work of the MSFA member organizations and participants, Mongolia is acknowledged as one of the leading countries in sustainable finance implementation***

Although MSFA member organizations are actively issuing green loans with their own resources, there is still a need to attract green funds with concessional terms internationally. This will significantly increase the amount and availability of sustainable financing. In this regard, specialized financial institutions such as the Mongolia Green Finance Corporation and Billion Tree Fund were founded based on public-private sector partnerships. An investment of 27 million USD was successfully attracted from the GCF.

Recognizing the work of the MSFA member organizations and participants, Mongolia is acknowledged as one of the leading countries in sustainable finance implementation. As such, we are sharing our experience with many countries such as Cambodia, Nepal, Philippines and Kyrgyzstan, as well as through organizations, that work in this field, such as the Sustainable Finance and Banking Network of the IFC, G20 Sustainable Finance Working Group, and the Global Green Finance Leadership Program. Moreover, MSFA members created an effective monitoring, reporting and incentives system, which includes semi-annual, voluntary issuance of implementation and green loan portfolio reports, annual participation in sustainable finance implementation, identification of the best organizations in SF, and voluntary release of sustainability reports. Some member organizations have established a standard to annually present their Sustainable Development Reports to their customers and the public.

The achievements and progress mentioned here are only a small part of the great work done by MSFA founders, members, supporting organizations, secretariat, and individuals over the past 11 years. I would like to congratulate and express deep gratitude to everyone who has worked with us with the same goal and belief, and spent their time, effort and dedication!

Going forward, I am sure Mongolia will advance to the next level in the field of sustainable development and green finance. Our country will fully establish a financial system that respects globally recognized environmental and social values, and integrate them with economic growth. We shall increase financial flows in this field, and lead other sectors as well. ■





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