Green Taxonomy: Sharing Mongolia’s Experience

Sustainable Banking Network Webinar Series

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TAXONOMY OBJECTIVES & KEY SECTORS

01 SUSTAINABLE FINANCE IN MONGOLIA

02 DRIVERS FOR A GREEN TAXONOMY

03 OVERVIEW OF PROCESS & STAKEHOLDERS

04 TAXONOMY OBJECTIVES & KEY SECTORS

05 MOVING TOWARDS IMPLEMENTATION

06 LESSONS LEARNED & RECOMMENDATIONS
ABOUT THE MONGOLIAN SUSTAINABLE FINANCE ASSOCIATION (MSFA)

Vision:
Mongolia to become a Regional Sustainable Finance Knowledge Center

Origins:
Mongolian Sustainable Finance Initiative by the Mongolian Bankers Association, started in 2013.

IFC- SBN:
Implementation > Advancing Chair of Taxonomy working group Co-chair for the IDA working group
Green Taxonomy development process and timeline

**2018.12.11**
Launch

- Coordination with Tsinghua team
- Meeting with key partners
- Desk review
- Drafting the Taxonomy
- Initial comments

**2018.12** - **2019.03**
- In-depth review of relevant documents
- Consultation #1

**2019.03** – **2019.05**
- One-on-one meetings with policymakers & partners
- Consultation #2

**2019.05** – **2019.06**
- Finalize draft
- Translate the Green Taxonomy
- Prepare for approval

**2019.06** – **2019.10**
- Central Bank of Mongolia directive for banks to send statistics

**2019.03** – **2019.10**: Mail feedback from partners

**2019.01** – **2019.10**: Mail feedback from banks

**2019.12.10**
Approval

- Central Bank of Mongolia directive for banks to send statistics
Drivers of the Green Taxonomy

**Environmental Issues**
- **Climate change**: 2.1°C
- **Air pollution**: miscarriage is 3.6 times more likely in the winter
- **Soil pollution**: 88% of Ulaanbaatar soil is contaminated by bacteria

**Industry Demand**
- Investment required to achieve NDC (22.7%): 11.7 billion USD
- Lack of definition limits access to green financing
- Banks: E&S Capacity
- Businesses: Potential green products

**Policy Mandate**
- National Green Development Policy
- NDC
- Monetary Policy of 2019
- National program to develop financial market until 2025
- National Sustainable Finance Roadmap
Partners

KEY PARTNERS:

1. Ministry of Construction and Urban Development
2. Ministry of Agriculture and Light Industry
3. Ministry of Energy
4. Ministry of Road and Infrastructure
5. Ministry of Finance
6. Energy Regulatory Commission
7. Financial Regulatory Commission
8. General Agency for Specialized Inspection
9. Mongolian Agency for Standardization and Metrology
10. Ulaanbaatar Municipality Office
11. National Development Agency
12. GCF Focal Point - NDA

TECHNICAL PARTNERS:

A. Regulators
1. Ministry of Construction and Urban Development
2. Ministry of Agriculture and Light Industry
3. Ministry of Energy
4. Ministry of Road and Infrastructure
5. Ministry of Finance
6. Energy Regulatory Commission
7. Financial Regulatory Commission
8. General Agency for Specialized Inspection
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B. Private Sector
1. Commercial banks (10)
2. Industry non-government organizations (18)
3. Businesses (12)
4. Universities (3)
5. International development organizations and project units (9)
6. IFIs (4)

APPROVED BY:

1. Minister of Finance
2. Governor of the Central Bank of Mongolia
3. Head of Financial Regulatory Commission
4. CEO of Deposit Income Corporation
Overview of the Mongolia Green Taxonomy

**Overall objective:** “To develop a nationally agreed classification framework of activities that contribute to climate change mitigation, adaptation, pollution prevention, resource conservation, and livelihood improvement in the context of green finance.”

**Specific objectives:**
1. Provide **common understanding and approach** to identify, develop, and finance green projects
2. **Enhance investors’ confidence and prevent “green washing”**
3. **Boost green financial flows** from various sources
4. **Track private sector investments** into green projects
5. **Inform national policies and strategies** on green finance

<table>
<thead>
<tr>
<th>Users</th>
<th>Examples of application</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial institutions</td>
<td>Use as a <strong>guide</strong> to i) develop green finance strategies, ii) identify/compare green finance opportunities, iii) design green criteria, iv) measure and report green finance flows, v) educate clients.</td>
</tr>
<tr>
<td>Bond issuers (corporate, municipal, government)</td>
<td>Use as a <strong>reference</strong> to i) develop eligibility criteria of the projects, ii) assess and select green projects/activities, iv) tracking of the proceeds, v) reporting on the allocation of proceeds.</td>
</tr>
<tr>
<td>Industry (corporate, SMEs, start-ups etc.)</td>
<td>Use as a <strong>guide</strong> to identify opportunities to i) develop green strategies, ii) review/compare green technology options, iii) develop new green projects, iv) understand eligibility for green finance options.</td>
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<tr>
<td>Verification and standard-setting companies</td>
<td>Use as a <strong>reference</strong> to conduct pre- and post-issuance impact assessments, define baselines, certify and label green projects, and conduct verifications of the use of proceeds.</td>
</tr>
<tr>
<td>Policy makers</td>
<td>Use as a <strong>basis</strong> for further policy action in the area of green finance, including standards, labels, incentive mechanisms, and any potential changes to prudential rules.</td>
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Overview of the Mongolia Green Taxonomy

**Principles**

**PRINCIPLE 1:** Contribute to national policies and targets

- National Green Development Policy
- Sustainable Development Vision
- Nationally Determined Contributions

**PRINCIPLE 2:** Address key sustainability challenges

- i) Climate change mitigation & adaptation
- ii) Pollution prevention
- iii) Resource conservation
- iv) Livelihood improvement

**PRINCIPLE 3:** Cover high-emitting, key economic sectors

- Energy
- Agriculture
- Waste
- Construction
- Manufacturing
- Services

**PRINCIPLE 4:** Align with international standards

- i) Broad conceptual definitions
- ii) Regulatory and legislative approaches
- iii) Market-led standards
- iv) Financial institutions’ definitions

**PRINCIPLE 5:** Comply with ESG standards

- Mongolian Sustainable Finance Principles and Sector Guidelines
- Banks’ own E&S policies

**PRINCIPLE 6:** Continuous review and development

- Review and update the taxonomy every 3-5 years in line with market, technology and policy developments
GREEN TAXONOMY: SHARING MONGOLIA’S EXPERIENCE

Stock-taking of existing international practices

4 Types of General Approaches (examples)

**Broad conceptual definitions**
- Regulators, bankers associations
- DFIs, local financial institutions

**Regulatory and legislative approaches**
- EU Taxonomy
- China Green Bond Endorsed Project Catalogue
- Bangladesh Bank Green Finance Taxonomy

**Market-led standards**
- Green Bond Principles (GBP)
- Climate Bonds Initiative Taxonomy

**Financial institutions' definitions**
- MDBs (IFC Climate Taxonomy, GCF, ADB)
- Local commercial banks, funds

Commonalities & Inconsistencies

Clusters of categories

Source: UNEP Inquiry
Categories of the Mongolia Green Taxonomy

1. Clean energy
   - solar, wind, geothermal, transmission distribution

2. Low pollution energy
   - Bio-energy, coal alternatives, waste to energy, fuel switch

3. Energy efficiency
   - Industrial, utility, public services, buildings

4. Green building
   - Buildings, building products and materials, infrastructure

5. Pollution prevention & control
   - Air and soil

6. Sustainable water and waste use
   - Water efficiency, treatment & recycling, resource recovery

7. Sustainable agriculture, land use, forestry, and eco-tourism

8. Clean transport
   - Public transportation, freight, private vehicles, infrastructure, supply chain, ICT

**Level 1:** the main taxonomy categories  
**Level 2:** sector/sub-sector scope of green activities for investment purpose  
**Level 3:** typical examples and technologies to demonstrate what is eligible under each category
## Categories of the Mongolia Green Taxonomy

Examples of activities/eligible assets included in the taxonomy specific to Mongolia’s context:

<table>
<thead>
<tr>
<th>Sub-categories</th>
<th>Sustainability issue addressed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clean heating appliances</td>
<td>air pollution, livelihood</td>
</tr>
<tr>
<td>Clean ger area fenced plot</td>
<td>air pollution, soil pollution, livelihood, waste</td>
</tr>
<tr>
<td>Eco-sanitation toilets</td>
<td>soil pollution, water pollution, waste</td>
</tr>
<tr>
<td>Sustainable pasture management</td>
<td>climate mitigation, climate adaptation, resource conservation</td>
</tr>
<tr>
<td>Sustainable cashmere production</td>
<td>climate mitigation, climate adaptation, resource conservation</td>
</tr>
</tbody>
</table>
Key Challenges in the Process

1. **Technical**
   - Limited ESG data, no baseline
   - Lack of industry standards
   - Limited availability of technologies and terminologies
   - Defining adaptation activities

2. **Strategic**
   - Setting priorities and boundaries (development vs. sustainability goals, social vs. environmental)
   - Keeping balance between international standards and Mongolia’s unique needs

3. **Stakeholder**
   - No super financial regulator (ownership issue)
   - Building consensus between various agencies and interest groups
   - Limited awareness and capacity
MOVING TOWARDS IMPLEMENTATION

• **PILOT PHASE:** Based on the feedback and results of the pilot phase, make necessary amendments to the taxonomy and develop implementation guidelines

• **INDUSTRY-GUIDELINES:** Develop industry-specific guidelines in support of the taxonomy (e.g. energy efficient housing criteria)

• **TOOLS & TRAINING:** Develop impact assessment (e.g. GHG quantification) tools for financial institutions and organize technical trainings for various stakeholders

• **VERIFICATION CAPACITY:** Build local green project verification capacity

• **PILOT PROJECTS:** Implement pilot projects with the application of the taxonomy (e.g. green affordable housing, sustainable cashmere production)

• **GREEN FINANCE POLICIES:** Support the development of green finance policies in support of the implementation of the taxonomy
### GREEN TAXONOMY: SHARING MONGOLIA’S EXPERIENCE

**Recommended step-by-step approach for SBN members**

<table>
<thead>
<tr>
<th>Phase 1: Preparation</th>
<th>Phase 2: Development</th>
<th>Phase 3: Launch &amp; Pilot</th>
<th>Phase 4: Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Map key stakeholders and partners</td>
<td>Review and benchmark existing <strong>best practices</strong></td>
<td>Approve and launch taxonomy</td>
<td>Continuously update taxonomy</td>
</tr>
<tr>
<td>Identify most suitable leading/coordinating entity and approving body</td>
<td>Set sustainability objectives and principles</td>
<td>Support taxonomy with <strong>green finance policies</strong> (e.g. disclosure requirements)</td>
<td>Develop implementation guidelines/tools</td>
</tr>
<tr>
<td>Set up committees/working groups</td>
<td>Develop <strong>initial framework</strong></td>
<td>Set up <strong>reporting &amp; tracking systems</strong></td>
<td>Develop green financial products &amp; pilot projects</td>
</tr>
<tr>
<td>Develop action plan, timeline, and budget</td>
<td>Refine framework through <strong>consultation and feedback</strong></td>
<td>Collect feedback from stakeholders</td>
<td>Analyze data, measure progress, set targets</td>
</tr>
</tbody>
</table>

**Capacity building, awareness & stakeholder buy-in**
Any questions?

To receive a copy of the taxonomy or ask any questions, please contact:
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