

# Funding Proposal

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## **FP153: Mongolian Green Finance Corporation**

Mongolia | XacBank LLC (XacBank) | Decision B.27/01

9 December 2020



**GREEN  
CLIMATE  
FUND**

# Funding Proposal

Project/Programme title: Mongolia Green Finance Corporation  
Country(ies): Mongolia  
Accredited Entity: XacBank LLC  
Date of first submission: 2018/03/30  
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GREEN  
CLIMATE  
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### ***Note to Accredited Entities on the use of the funding proposal template***

- Accredited Entities should provide summary information in the proposal with cross-reference to annexes such as feasibility studies, gender action plan, term sheet, etc.
- Accredited Entities should ensure that annexes provided are consistent with the details provided in the funding proposal. Updates to the funding proposal and/or annexes must be reflected in all relevant documents.
- The total number of pages for the funding proposal (excluding annexes) **should not exceed 60**. Proposals exceeding the prescribed length will not be assessed within the usual service standard time.
- The recommended font is Arial, size 11.
- Under the [GCF Information Disclosure Policy](#), project and programme funding proposals will be disclosed on the GCF website, simultaneous with the submission to the Board, subject to the redaction of any information that may not be disclosed pursuant to the IDP. Accredited Entities are asked to fill out information on disclosure in section G.4.

**Please submit the completed proposal to:**

[fundingproposal@gcfund.org](mailto:fundingproposal@gcfund.org)

**Please use the following name convention for the file name:**

“FP-[Accredited Entity Short Name]-[Country/Region]-[YYYY/MM/DD]”



| <b>A.11. Implementation period</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 6 years                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | <b>A.12. Total lifespan</b>                                             | 15 years                                                                                                  |   |           |                  |   |                        |      |   |                                                                                     |            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|---|-----------|------------------|---|------------------------|------|---|-------------------------------------------------------------------------------------|------------|
| <b>A.13. Expected date of AE internal approval</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>A.14. ESS category</b>                                               | Refer to the AE's safeguard policy and <a href="#">GCF ESS Standards</a> to assess your FP category.<br>B |   |           |                  |   |                        |      |   |                                                                                     |            |
| <b>A.15. Has this FP been submitted as a CN before?</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <b>A.16. Has Readiness or PPF support been used to prepare this FP?</b> | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>                                       |   |           |                  |   |                        |      |   |                                                                                     |            |
| <b>A.17. Is this FP included in the entity work programme?</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <b>A.18. Is this FP included in the country programme?</b>              | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>                                       |   |           |                  |   |                        |      |   |                                                                                     |            |
| <b>A.19. Complementarity and coherence</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Does the project/programme complement other climate finance funding (e.g. GEF, AF, CIF, etc.)? If yes, please elaborate in section B.1.<br>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>                                                                                                                                                                                                                                                                                                                            |                                                                         |                                                                                                           |   |           |                  |   |                        |      |   |                                                                                     |            |
| <b>A.20. Executing Entity information</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <p><b>Executing Entities:</b></p> <table border="1"> <thead> <tr> <th>#</th> <th>Component</th> <th>Executing entity</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Loan financing to PFIs</td> <td>MGFC</td> </tr> <tr> <td>2</td> <td>Equity investment into MGFC, Grant for management &amp; institutional capacity building</td> <td>AE-XacBank</td> </tr> </tbody> </table> <p>The Mongolia Green Finance Corporation (MGFC) will be the executing entity for Component 1. XacBank will be the executing entity of Component 2.</p> |                                                                         |                                                                                                           | # | Component | Executing entity | 1 | Loan financing to PFIs | MGFC | 2 | Equity investment into MGFC, Grant for management & institutional capacity building | AE-XacBank |
| #                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Component                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Executing entity                                                        |                                                                                                           |   |           |                  |   |                        |      |   |                                                                                     |            |
| 1                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Loan financing to PFIs                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | MGFC                                                                    |                                                                                                           |   |           |                  |   |                        |      |   |                                                                                     |            |
| 2                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Equity investment into MGFC, Grant for management & institutional capacity building                                                                                                                                                                                                                                                                                                                                                                                                                                                       | AE-XacBank                                                              |                                                                                                           |   |           |                  |   |                        |      |   |                                                                                     |            |
| <b>A.21. Executive summary (max. 750 words, approximately 1.5 pages)</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                         |                                                                                                           |   |           |                  |   |                        |      |   |                                                                                     |            |
| <p>Mongolia lacks the necessary resources to finance its planned transition to a low-carbon and resource-efficient economy and achieve its Nationally Determined Contribution (NDC) targets. The financing necessary to achieve NDCs (mitigation) is estimated at USD 11.7 billion (85% of GDP).<sup>1</sup></p> <p>Despite an ambitious agenda, both the Government of Mongolia (GoM) and the domestic financial sector are unable to deliver finance at scale to support transition to low-emission technologies. The economy is impacted by commodity market fluctuations and the GoM has been constrained by an Extended Fund Facility of the International Monetary Fund (IMF) with a restricted ability to borrow. The financial sector is burdened by the high cost of capital, and lack of knowledge about green finance and associated opportunities. The main barrier to the adoption of advanced technologies is the cost of financing them, specifically when the key adopters are low income households and small and medium sized businesses. High lending interest rates and relatively short tenors are a significant challenge for the financing of low-carbon and resource-efficient measures, which require longer-term, affordable credit due to the cost of technology transfer, coupled with constraints on income (for households) and budget (for businesses) of beneficiaries. Existing green financing facilities do not match the scale needed to induce transformational impacts.</p> <p>The Mongolia Green Finance Corporation (MGFC) is a joint public-private sector effort to create a national financing vehicle (NFV) to overcome the existing challenges and constraints of climate change mitigation. The MGFC specifically targets the mainstreaming of green, affordable and gender-inclusive financing for households and businesses to switch to low-carbon technologies; and to create an improved policy environment and build the capacity and awareness of stakeholders in support of this mission. Taken</p> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                         |                                                                                                           |   |           |                  |   |                        |      |   |                                                                                     |            |

<sup>1</sup> <http://ndc.mne.gov.mn/en/ndcPortfolio/3/3>

together, these measures will induce a paradigm shift towards low-carbon technologies and resilient livelihoods, particularly for low-income, vulnerable households and energy intensive users, businesses. By doing so, MGFC will become a major institution for effective and strategic financing of climate change mitigation policies and measures, thus supporting the GoM to achieve its GHG emissions reduction targets stated in its NDC and the National Green Development Policy (NGDP) of Mongolia. In its inception phase, the MGFC will target an improvement in the energy efficiency (EE) of households and businesses.

The MGFC features two components: (1) Provision of wholesale financing to participating financial institutions (PFIs) for EE in industry, thermal insulation and green affordable housing; and (2) Equity injection into the MGFC, technical assistance to strengthen MGFC’s green business development function, reinforce the green finance policy environment, build the capacity of PFIs, project developers, households and policy makers, develop a sustainable and bankable green project pipeline and conduct community engagement and awareness raising activities. Executing entities for the programme outputs will be: XacBank for (2) and MGFC for (1).

In its first stage, MGFC will target households living in peri-urban (Ger) areas of Ulaanbaatar (~216,000 households) as well as in rural areas throughout Mongolia, businesses transitioning to low-carbon and energy efficient practices (at least 229 designated entities)- energy intensive users, and Mongolian Financial Institutions (11 commercial banks), with a product pipeline that is complementary to existing GCF credit lines in Mongolia (as outlined in Section B.5) and positions the institution well to build upon early successes to attract larger amounts of financing and extend the market impact. MGFC’s direct beneficiaries are expected to reach 86,291 people who will benefit from affordable and inclusive financial products. In the future, MGFC will have the capacity to target additional markets in relationship with Mongolia’s climate change and green development commitments.

The MGFC presents an opportunity to drive significant GHG emission reduction – far above what is typical of GCF projects and programs – due to the revolving nature of the lending facility and the indefinite lifetime of the institution. While the GCF’s loan contribution will be repaid within a 15-year timeline, the institution of MGFC will continue to exist, attract additional funding from public and private, and drive transformational projects and an overall will result in GHG emission reduction far higher than the numbers shown in this Funding Proposal.

**Table A.21.1 Summary of MGFC’s Main Climate Change Interventions**

|                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Objectives</b>                       | MGFC’s overall objective is to contribute to GHG emissions reduction and climate change mitigation in Mongolia. MGFC will mainstream green finance for low-carbon, climate-resilient development through dedicated financing to energy intensive users and households in partnership with local financial institutions. Specifically, the financial products of the MGFC will directly support the following NDC target: implementing advanced technology in energy production through the provision of affordable financing for: (i) thermo-retrofitting solutions of existing houses; (ii) energy efficiency measures of energy intensive users; and (iii) green mortgages for EE housing.                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Primary measurable benefits</b>      | <p>Mitigation - Reduction in GHG emissions</p> <ul style="list-style-type: none"> <li>▪ Direct emission reductions of at least 3,754,767 tCO<sub>2</sub>e.</li> <li>▪ Indirect upstream economic lifetime GHG emission reductions of 332,625 tCO<sub>2</sub>e, in addition to the above direct emission reductions.</li> </ul> <p>Co-benefits</p> <ul style="list-style-type: none"> <li>▪ Job creation – 1,470 of which at least 588 are women.</li> <li>▪ Gender mainstreaming – 40% of Board, 30% of MGFC staff, at least 50% of trainees and 30% loan applications are women.</li> </ul> <p>Transformational impacts</p> <ul style="list-style-type: none"> <li>▪ Mainstreaming and scaling up of green finance through public-private-partnership model.</li> <li>▪ Jumpstarting of national financing vehicle to support an effective implementation of NDCs.</li> <li>▪ Mainstreaming of ESS and gender in the financial sector.</li> <li>▪ Green finance policy environment advanced and capacity and awareness of stakeholders developed.</li> </ul> |
| <b>Alignment with main GoM policies</b> | <ul style="list-style-type: none"> <li>▪ Mongolia’s Intended Nationally Determined Contribution;</li> <li>▪ Mongolia’s Nationally Appropriate Mitigation Actions;</li> <li>▪ Mongolia’s Vision 2050;</li> <li>▪ Mongolia’s National Green Development Policy;</li> <li>▪ Mongolia’s National Action Programme on Climate Change;</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

- Mongolia Five Years Development Program for 2021-2025;
- Action Plan of the Government of Mongolia for 2020-2024;
- Mongolia's Second National Communication;
- Affordable Housing Strategy (AHS) for Ulaanbaatar;
- Ulaanbaatar City Master Plan by 2020 and Development Approaches for 2030;
- Law on Energy Conservation of Mongolia;
- Mongolia's Law on promotion of gender equality;
- Mongolia's National program on gender equality;
- Mongolia's National Program on Reduction of Air and Environmental Pollution;
- Mongolia's National Program to Develop the Financial Market until 2025;
- Environmental sector's gender strategy of Mongolia;
- Financial sector's gender strategy of Mongolia.

## B. PROJECT/PROGRAMME INFORMATION

### B.1. Climate rationale and context (max. 1000 words, approximately 2 pages)

#### Climate Rationale

##### Baseline scenario

For the purpose of emission baseline determination, the MGFC will employ the most comprehensive source available: the Initial Biennial Update Report (BUR) of Mongolia under the UNFCCC.

##### Emissions baseline and mitigation targets

Total GHG emissions in Mongolia in 2014 were 34,482.73 Gg CO<sub>2</sub>e (excluding LULUCF).

The energy sector is the main contributor to GHG emissions in Mongolia, with GHG emissions in 2014 from it being 17,268.79 Gg CO<sub>2</sub>e, accounting for 50.08% of total national emissions.

**Table B.1.1 Mongolia's GHG emissions/removals by sectors in 1990 and 2014<sup>2</sup>**

| Sector                       | Emissions, (Gg CO <sub>2</sub> e) |            | Change from 1990<br>(Gg CO <sub>2</sub> e) | Change from 1990<br>(%) |
|------------------------------|-----------------------------------|------------|--------------------------------------------|-------------------------|
|                              | 1990                              | 2014       |                                            |                         |
| Energy                       | 11,091.14                         | 17,267.79  | 6,176.64                                   | 55.69                   |
| IPPU                         | 218.66                            | 328.06     | 109.39                                     | 50.03                   |
| Agriculture                  | 10,585.30                         | 16,726.98  | 6,141.68                                   | 58.02                   |
| Waste                        | 55.62                             | 159.91     | 104.29                                     | 187.49                  |
| Total (excluding LULUCF)     | 21,950.73                         | 34,482.73  | 12,532.00                                  | 57.09                   |
| LULUCF                       | -23,024.18                        | -24,451.93 | -1,427.75                                  | 6.20                    |
| Net total (including LULUCF) | -1,073.46                         | 10,030.80  | 11,104.26                                  | 1,034.44                |

Under BAU scenario, GHG emissions by gases are projected to increase further: CO<sub>2</sub> - 3.3 times, CH<sub>4</sub> - 2.3 times, and N<sub>2</sub>O - 2.6 times by 2030 using 2010 as the base year. However, if the actions described in the national policies and programs area implemented completely and key targets are met as planned, it is expected that GHG emissions can be reduced by about 25% in 2025 and 28% in 2030.

With regards to the energy sector, the demand for energy is expected to increase partly due to projected production intensity. As such, by 2030, GHG emissions are expected to increase 2.4 times in energy demand, 3.0 times in energy production and 2.7 times overall in the energy sector compared to the level of 2010, as follows (Table B.1.2):

**Table B.1.2 GHG emissions according to energy demand and energy transformation**

| Branch                                            | 2010 | 2015 | 2020 | 2025 | 2030 |
|---------------------------------------------------|------|------|------|------|------|
| Energy transformation, 1,000 Gg CO <sub>2</sub> e | 8.0  | 10.5 | 14.1 | 18.5 | 23.8 |
| Energy demand, 1,000 Gg CO <sub>2</sub> e         | 5.7  | 6.9  | 9.2  | 11.4 | 13.9 |
| Total emission, 1,000 Gg CO <sub>2</sub> e        | 13.7 | 17.4 | 23.2 | 29.9 | 37.7 |
| Emission index (2010=1)                           | 1.0  | 1.3  | 1.7  | 2.2  | 2.7  |

With EE improvement measures implemented, it is projected that net GHG emissions are to be reduced by 1.5 million tCO<sub>2</sub>e by 2020 and 2.8 million tCO<sub>2</sub>e by 2030, as shown in Table B.1.3. Among the indicators

<sup>2</sup> Table 3-10 of Mongolia's Initial Biennial Update Report, 2017

presented, insulation of building and apartments is projected to contribute the highest GHG emissions reduction towards the overall reduction target.

**Table B.1.3 Baseline scenario of GHG emissions reduction through improved EE**

| Indicators                                                           |                                            | 2010 | 2015 | 2020 | 2025 | 2030 |
|----------------------------------------------------------------------|--------------------------------------------|------|------|------|------|------|
| Transmission and distribution loss                                   | Total resource electricity %               | 13.5 | 14.2 | 10.8 |      | 7.8  |
|                                                                      | Reduction, 1,000 Gg CO <sub>2</sub> e      | -    | -    | 0.1  |      | 0.3  |
| Internal energy use of CHP plants                                    | Produced electricity %                     | 15.6 | 14.1 | 11.2 |      | 9.1  |
|                                                                      | Reduction 1,000 Gg CO <sub>2</sub> e       | -    | -    | 0.3  |      | 0.9  |
| Insulation of building and apartment                                 | Apartment number, %                        |      |      | 50   |      | 90   |
|                                                                      | Reduction 1,000 Gg CO <sub>2</sub> e       | -    | -    | 0.9  |      | 1.3  |
| Number of households with LED light                                  | Urban households, %                        |      |      | 60   |      | 90   |
|                                                                      | Reduction 1,000 Gg CO <sub>2</sub> e       | -    | -    | 0.1  |      | 0.1  |
| Share of low fuel consumption vehicles in total number of vehicle, % | Hybrid, gas and electric transportation, % | -    | 6.5  | 8.7  |      | 13   |
|                                                                      | Reduction 1,000 Gg CO <sub>2</sub> e       | -    |      | 0.1  |      | 0.2  |
| Total GHG emission reduction, 1000 Gg CO <sub>2</sub> e              |                                            |      |      |      | 1.5  | 2.8  |

### Climate vulnerability baseline

Despite Mongolia's marginal historical contribution to global climate change, the country is characterized by intensive energy usage during cold winter months and is already experiencing many detrimental impacts from climate change. Mongolia's recorded temperatures have already increased by 2.24 degrees Celsius since the 1940s, more than double the world's average. Moreover, the 4<sup>th</sup> Assessment of the International Panel on Climate Change anticipates increased annual temperatures in Mongolia of between 2.5-5.0 degrees Celsius, along with increases in drought and desertification, making it one of the most vulnerable countries to global climate change.<sup>3</sup>

The already severe effects of climate change have accelerated rural-to-urban migration, resulting in even further climate impacts. As weather and temperature swings become more severe, large-scale livestock mortality events called *dzuds* have occurred more frequently, decimating entire herds of animals and forcing herders to move to the areas around Ulaanbaatar. These peri-urban settlements primarily use poor-quality raw coal for heating, which accounts for 80% of Ulaanbaatar's winter air pollution and has serious health implications – particularly for children.<sup>4</sup>

While the Mongolian Government has committed to the Paris Agreement, as well as establishing ambitious Mongolian NDC targets, the abundance of cheap domestic coal means that Mongolian industry will not likely transition to more energy efficient technologies on their own; rather, a mechanism like the MGFC is necessary to promote, educate, and finance more sustainable technologies.

In relation to the MGFC, the current climate baseline scenario can be summarized as follows: Mongolia's energy sector is the highest contributor to GHG emissions, and sector emissions are projected to increase by 2.7 times by 2030;

- EE measures could result in GHG emissions reductions of up to 2.9 million tCO<sub>2</sub>e by 2030;
- The majority of 216,000 ger area households remain unconnected to central heating supply, causing low EE (50% conversion efficiency) and use of polluting fossil fuels (50% coal and 50% lignite by energy input);

<sup>3</sup> Mongolia's Second Assessment Report on Climate Change (MARCC), 2014

<sup>4</sup> Air Pollution in Mongolia: Policy brief (WHO), 2018

- Ger area and rural households have very limited access to finance to upgrade their housing conditions and remain highly vulnerable to climate change, living in areas prone to flooding, lack of access to piped drinking water, sanitation services and waste management services;
- There is limited investment in EE measures at household, SME, and large corporate levels, and a lack of bankable EE products on both supply and demand sides;
- Mongolia's urban settlements are suffering from high pollution loads, especially air pollution, dramatically affecting public health in Ulaanbaatar;
- Lack of supply of green, affordable housing units nation-wide;
- Green building standards and codes have not been developed/adopted.

## B.2. Theory of change (max. 1000 words, approximately 2 pages plus diagram)

The GoM has made strong commitments and ambitious policies for reducing air pollution and GHG emissions over the next few decades. However, these ambitious targets will require a significant amount of capital investment to be implemented. The MGFC presents an optimal public-private partnership model that will significantly contribute to the removal of financial, institutional, technical and social barriers that hamper the shift towards low-carbon and climate-resilient development in Mongolia.

Financial institutions in Mongolia exhibit significant interest in green investment; however, they face a number of internal and external barriers towards wide-scale adoption of green financing that the MGFC can help solve. The common economic and financial barriers are: lack of financial incentives; high cost of capital; high transaction cost; lack of or inadequate access to financial resources and uncertain macro-economic environment.<sup>5</sup> These key barriers are summarized below with MGFC's proposed solutions detailed in Table B.2.1.

**Table B.2.1. Key barriers, challenges and potential barrier removal actions**

| Type of Barrier                                                                                                                                 | Description                                                                                                                                                                                                                                                                 | Barrier removal action                                                                                                                                                                                                                     |
|-------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial and economic</b>                                                                                                                   |                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                            |
| No concessional finance available at scale to finance NDCs                                                                                      | <ul style="list-style-type: none"> <li>• Financing necessary to achieve Mongolia's NDC estimated at USD 11.7 billion (85% of GDP) for mitigation.<sup>6</sup></li> </ul>                                                                                                    | <ul style="list-style-type: none"> <li>• Establishment of a national green financial institution to mobilize funds at scale, mainstream and increase access to green finance</li> </ul>                                                    |
| High cost of capital                                                                                                                            | <ul style="list-style-type: none"> <li>• Deposit (e.g. 13-17% p.a) and lending interest rates (e.g. 18-24% p.a) are high in Mongolia mainly due to high cost of funding sources, foreign exchange (FX) risks and the underdevelopment of the non-banking sector.</li> </ul> | <ul style="list-style-type: none"> <li>• Provision of affordable, long-term financing through leveraged and blended finance mechanism for green financial products for households and energy intensive users by Mongolian banks</li> </ul> |
| High upfront cost of low carbon technologies and EE measures                                                                                    | <ul style="list-style-type: none"> <li>• Low-carbon and resource efficient measures typically need longer-term, affordable credit.</li> </ul>                                                                                                                               | <ul style="list-style-type: none"> <li>• Mainstreaming of EE and RE lending through attractive risk sharing scheme</li> </ul>                                                                                                              |
| High perceived risk of EE and RE lending                                                                                                        | <ul style="list-style-type: none"> <li>• Businesses/individuals usually opt to purchase/ implement the cheapest solution.</li> </ul>                                                                                                                                        | <ul style="list-style-type: none"> <li>• Facilitation of the adoption of clean and efficient technologies via long tenor, low interest rate financial products</li> </ul>                                                                  |
| Low price incentive to switch to clean technologies due to low price of coal (large domestic resources) and subsidized electricity, heat tariff | <ul style="list-style-type: none"> <li>• Obsolete technologies and techniques result in low efficiency and high energy losses.</li> </ul>                                                                                                                                   | <ul style="list-style-type: none"> <li>• Incentivizing clean technologies &amp; disincentivizing obsolete technologies</li> </ul>                                                                                                          |
| <b>Social</b>                                                                                                                                   |                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                            |

<sup>5</sup> Technology Needs Assessment, Volume 2, Climate Change Mitigation in Mongolia, UNFCCC, UNEP, GEF, MET, 2013

<sup>6</sup> Chapter 4: Constraints and gaps, and related financial, technical and capacity needs, Mongolia's initial biennial update report under UN Framework convention on climate change, August 2017

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| <p>Almost non-existent disposable income and investment capacity of businesses and residents in rural and ger areas</p> <p>Limited capacity of FIs and businesses in gender mainstreaming and ESS</p> | <ul style="list-style-type: none"> <li>Average income of residents in rural areas is 1.2 times lower than the average household income of Ulaanbaatar city.</li> <li>Average income of households in the ger areas is 1.1 times lower than the average household income of Ulaanbaatar city.</li> <li>Ger area households are constrained by the cost of insulation technologies due to expensive, short-term financing with intensive repayment schedules and limited alternatives available on the market.</li> <li>Those constrained by income and/or budget use inefficient heating technologies</li> </ul>                                                                                                                                                                                                                                                                     | <ul style="list-style-type: none"> <li>Provision of affordable and long-term loans particularly suitable for low income groups across Mongolia.</li> <li>MGFC's operation entails a number of hands-on activities with creation of new jobs in construction, building, insulation and related industries, inducing social co-benefits.</li> <li>MGFC will mainstream gender and ESS in Mongolia's financial sectors by incorporating GCF's gender and ESS in its operations, requiring PFIs and businesses benefiting from financial products do the same.</li> </ul>                                                                                                                                                                                                                      |
| <b>Policy and regulatory</b>                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <p>No policy framework on green finance</p> <p>Absence of industry norms and standards for green mortgage</p> <p>Lack of coordination across ministries, agencies and stakeholders</p>                | <ul style="list-style-type: none"> <li>Mongolia lacks a policy framework to define and support green finance, e.g. financial or regulatory incentives</li> <li>The lack of industry specific green norms, for example, green building and EE standards, is a result of the limited technical capacity and coordination across government agencies and institutions.</li> <li>Where policies exist, its implementation is hindered by the lack of institutional and human resources capacity e.g. limited resources in implementing Law on Energy Conservation.</li> </ul>                                                                                                                                                                                                                                                                                                           | <ul style="list-style-type: none"> <li>Green building, EE and green mortgage standards to be developed and implemented</li> <li>Advisory Committee of MGFC to comprise related stakeholders to facilitate effective coordination for NDC implementation</li> <li>MGFC to act as a tool to facilitate policy implementation, allocating finance in priority policy areas</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Capacity and awareness</b>                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <p>Lack of technical capacity of various stakeholders</p> <p>Lack of trained human resources and capacity</p> <p>Lack of awareness</p>                                                                | <ul style="list-style-type: none"> <li>Construction and energy sectors constrained due to lack of technical capacity in understanding energy management, green buildings, choosing optimal technologies and insulation as well as measuring EE.</li> <li>The implementation of climate change mitigation measures requires technical capacity to be built among project developers and effective coordination across government, local financial institutions, businesses and households.</li> <li>The lack of awareness among stakeholders about the benefits of EE and low carbon housing projects prevent the uptake in cleaner technologies in both markets.</li> <li>Capacity gap includes limited knowledge about loan products among targeted end borrowers as well as lack of understanding of the economic, environmental and social benefits of EE in general.</li> </ul> | <ul style="list-style-type: none"> <li>MGFC to have a dedicated green business development department to tackle technical and capacity issues and provide trainings to PFIs for knowledge and skills transfer</li> <li>Capacity building, knowledge strengthening embedded into MGFC's operation</li> <li>Training and capacity building of key technical staff on EE</li> <li>Training and capacity building of key technical staff (construction workers) on green buildings and EE</li> <li>MRV and M&amp;E mechanisms will be developed, complied with and disseminated</li> <li>EE auditing of buildings, equipment and machinery</li> <li>Public campaigns, outreach events and trainings targeting individuals, households, communities, SMEs and energy intensive users</li> </ul> |

Through conversations with PFIs and other key stakeholders, it was clear that capital availability is one of the largest barriers to meeting Mongolia's climate targets. GIG's analysis during PPF work confirms that these targets will not be met without a significant injection of investment capital, and a dedicated funding institution that can raise and deploy that capital as a project enabler. MGFC would play this critical role in

generating financing for green projects, increasing deal volume, dispersing market knowledge, and encouraging best practices across the industry. MGFC could work effectively by acting as an independent party that does not displace PFIs, but rather acts as a foundation and key support system for them. It will ultimately attract more concessional providers of capital so that the private sector can grow their loan books without increasing reliance on government subsidies, and unlock more equity investments from international investors to allow PFIs to lend to project developers of green infrastructure projects (e.g., renewables).

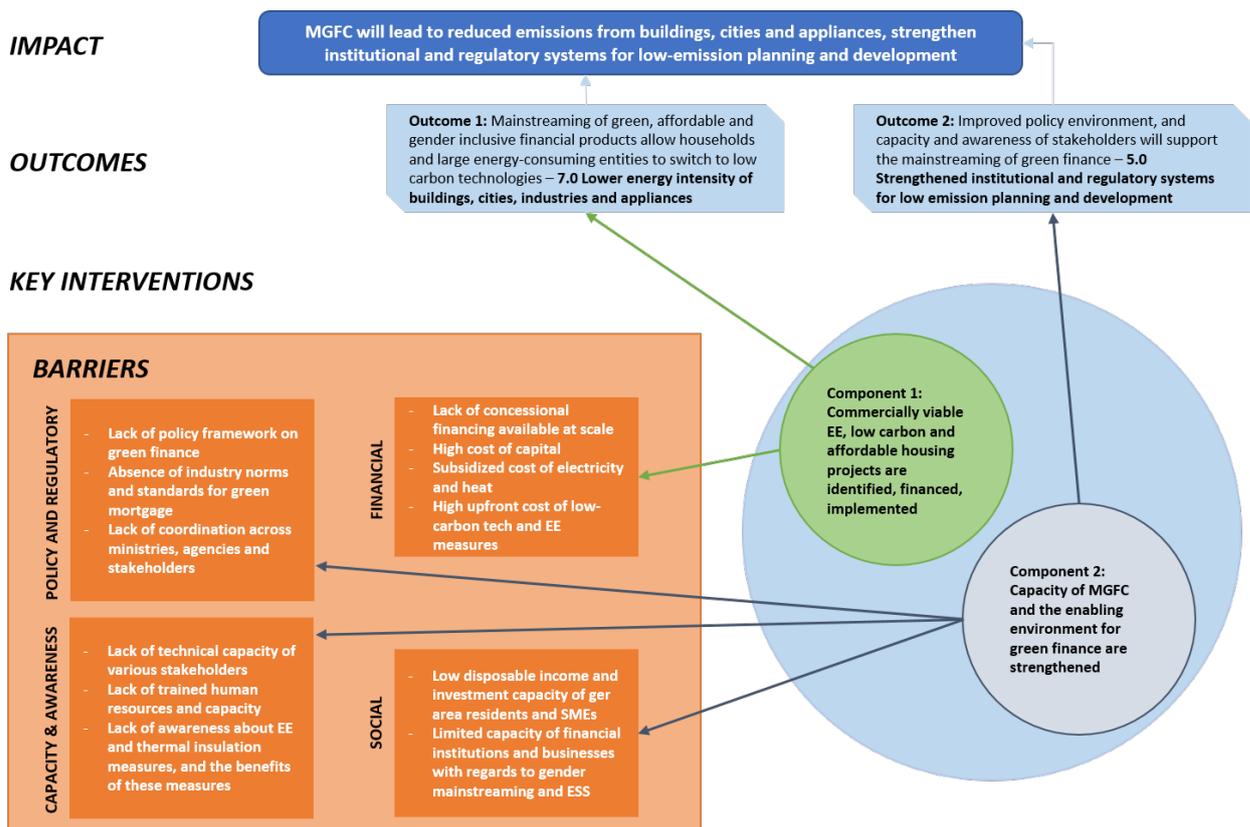
As shown by Table B.2.1 (above) and Figure B.2.2 (theory of change, below), MGFC is not merely a tool for deploying capital; rather, it plays a key role in changing market behavior, educating key stakeholders, and informing future policy goals. As a PPP, the MGFC can take a broader view of the market and direction for green financing, making sure that new projects are aligned with Mongolia’s NDC targets. The MGFC can serve as a conduit between PFIs and the GoM, allowing MGFC to more effectively identify market opportunities and provide feedback and data to inform policy decisions.

Furthermore, MGFC will provide a centralized way to work with other partners and institutions to gather existing knowledge and determine best practices on mitigation projects in ger areas, EE and low-carbon housing development in Ulaanbaatar. Other relevant initiatives from development partners include the following:

- ADB Ulaanbaatar Green Affordable Housing and Resilient Urban Renewal Project (AHURP)
- UNDP-GES: NAMAs in the Construction Sector in Mongolia
- UN Habitat Community-Led Ger Area Upgrading in Ulaanbaatar City
- ADB Policy-Based Loan, Mongolia: Ulaanbaatar Air Quality Improvement Program

More discussion of complementarity with existing GCF credit lines is included in Section B.5.

Figure B.2.2 Theory of Change Diagram



**B.3. Project/programme description (max. 2000 words, approximately 4 pages)**

The MGFC was formally established with the overall objective to contribute to GHG emissions reduction and climate change mitigation in Mongolia. It specifically targets the mainstreaming of green, affordable and gender inclusive financial products to allow households and energy intensive users to switch to low carbon technologies (Outcome 1) and to contribute to create an improved policy environment, as well as build the capacity and awareness of stakeholders in support of the mainstreaming of green finance (Outcome 2).

The programme will implement the following interlinked components: (1) Provision of wholesale financing to participating financial institutions (PFIs) for EE in industry, thermal insulation and green affordable housing; and (2) Equity injection into the MGFC, technical assistance to strengthen MGFC's green business development function, reinforce the green finance policy environment, build the capacity of PFIs, project developers, households and policy makers, develop a sustainable and bankable green project pipeline and conduct community engagement and awareness raising activities. Executing entities for the programme outputs will be: MGFC for (1) and XacBank for (2).

The MGFC will induce transformational impacts by acting as a catalyst for the mainstreaming of green finance in Mongolia, mobilizing funds at scale for achieving NDC targets and igniting change in local financial institutions. This will not only develop EE business lines to scale-up the potential impact of the project, but will also help them adopt best practices in areas such as gender and ESS in their operations.

The proposed programme for the GCF includes the following complementary components, as described below.

**Outcome 1:** The mainstreaming of green, affordable and gender inclusive financial products allow households and large energy consuming entities to switch to low carbon technologies

**COMPONENT 1: WHOLESALE LENDING TO PFIs - *Commercially viable EE, low carbon and affordable housing projects are identified, financed and implemented.***

Component 1 encompasses the operations phase of MGFC, specifically (i) the channeling of financing through PFIs on a wholesale basis; and (ii) the direct channeling of financing to low carbon and green projects at a later stage. This component will be executed by MGFC, in accordance with the agreed eligibility criteria set out in the Credit Policy (Annex 26). In principle, all PFIs that comply with MGFC criteria, available in the Credit Policy and the Credit Procedure (Annex 49) will be eligible. The use of proceeds should be in accordance with a Participating Bank Agreement (PBA) (Annex 47) and On-Lending Agreement to be signed between MGFC and PFIs (Annex 29).

Output 1.1: Energy efficiency, low carbon and affordable housing financing facilitated

**Activity 1.1.1 *Assessment, selection and contracting of PFIs through open calls based on pre-approved eligibility criteria and participation requirements***

Using support from Component 1, MGFC will review the standard PBA in consultation with PFIs and announce open expressions of interest for PFIs willing to benefit from the funding. MGFC will conduct financial, impact, gender and ESG due diligence on PFIs to assess the capacity and management system of the PFIs to meet MGFC's requirements and standards set out in its various policies (Annexes 21-50). Such calls will then be held every 12 months.

**Activity 1.1.2 Provision of wholesale funding for selected PFIs.** PFIs that pass MGFC’s due diligence process successfully will enter into On-Lending agreements with MGFC, which may also include an Action Plan detailing various activities and timelines that the PFIs are required to comply with.

**Activity 1.2.2 Monitoring, reporting and verification (MRV) or GHG emissions reduction and other co-benefits at PFI and project levels**

In accordance with the MRV plan approved by GCF and MGFC’s Green Impact Framework, MGFC will be responsible for consolidating MRV reports from PFIs and carrying direct MRV of GHG emissions for projects financed directly by the institution. MGFC will also assess PFIs’ compliance with agreed Action Plans (1.1.2).

**Activity 1.2.3 Develop mechanism to monitor, report and verify (MRV) gender impacts and other social co-benefits at PFI and project levels**

MGFC will consolidate MRV reports from PFIs and carry out direct MRV of gender impacts and other social co-benefits for projects financed directly by the institution. PFIs will also be required to develop gender policies, management systems, and action plans that will be regularly reviewed MGFC.

**Outcome 2:** An improved policy environment, capacity and awareness of stakeholders support the mainstreaming of green finance

**COMPONENT 2: GREEN FINANCE CAPACITY BUILDING – Capitalization of MGFC is completed and the Capacity of MGFC and the enabling environment for green finance are strengthened**

Component 2 will ensure that (i) the capitalization of MGFC is completed and the necessary assets for its full operationalization are purchased (ii) MGFC’s internal capacity is built for it to be able to sustainably operate after an initial period of 3 years; (iii) the environment enabling the activities of MGFC and the development of green finance as a whole is established – including PFIs, policy makers, and project developers; and (iv) the documentation and dissemination of MGFC’s experience as a possible model for replication. XacBank will execute this component with participation of MSFA in the Project Management Unit.

**Output 2.1 MGFC business operations established in compliance with international standards and internal capacity is built**

**Activity 2.1.1 Capitalization of MGFC and procurement of goods and services to prepare MGFC for full operationalization**

The formal establishment of MGFC’s business operations will include facilitating the capitalization of MGFC through equity from the GCF, Government of Mongolia, and PFIs represented by a single shareholder “CGF LLC”. Each party shall enter into a Shareholders Agreement, after finalized negotiations on the template Shareholders Agreement (Annex 28).

Under the guidance of the existing Steering Committee (SC), a law firm has been hired by XacBank as part of the PPF (through “sole source tender with pre-qualification requirements”) to oversee this process. The law firm will continue to provide advisory services to MGFC during the full capitalization phase.

Once capitalization is completed, the Accredited entity as the Executing entity will procure the assets necessary for starting its operations in accordance with XacBank’s procurement policies and procedures. The Procurement Plan is attached in Annex 10 and the list of assets to be purchased is included in the financial model available in Annex 3.1 (‘OE’ tab).

**Activity 2.1.2 Advisory services to assist MGFC management**

An international advisory firm will be hired to enhance and complement the capacity of the local management team of MGFC. In its capacity as an Executing Entity, XacBank will be responsible for selecting and contracting an advisory entity to assist the executive management team to achieve MGFC's mandate (see Annex 10 for more on procurement). The international advisory firm is expected to provide services in the below three areas of work:

- On-going advisory support for the management and operations of MGFC
- Technical support related to PFI due diligence and GHG evaluation, monitoring, and reporting

The detailed scope of work of the advisory firm can be found in the Request for Interest (RFI) attached in Annex 23.

**Activity 2.1.3 Internal capacity building programme for MGFC management and staff**

XacBank will support MGFC in building its internal capacity by procuring full-time staff members through XacBank's internal Special Conditions Procurement Guideline following the screening and selection process of staff members by MGFC according to the Procurement Plan (Annex 10), MGFC's Governance Oversight Guideline (Annex 21), Charter of the Board of Directors (Annex 25) which includes the Criteria for Selection of the CEO (Annex 30.2) and Criteria for Selection of the Board of directors (Annex 30.1). Building on its experience as an Accredited Entity, XacBank will help assess the needs for capacity building of MGFC and design a comprehensive capacity building programme, which will address the following needs:

- Set-up and strengthening of MGFC's green business development unit.<sup>7</sup> Relevant instruments, tools and training modules will be created;
- Identification of potential clients, investment opportunities, and support for the development of green financial products;
- Develop tools and guides for project screening of technical feasibility and criteria, cash-flow forecasts, financial viability parameters, sensitivity analysis and risk analysis;
- Support for the development and implementation of a national outreach and marketing strategy to enhance demand for MGFC financial products through a) dedicated promotional materials, b) media exposure, c) targeted marketing events, d) MGFC-specific website and social media channels;
- Support to the implementation of results MRV tools will be developed for MGFC to support PFIs with assessing, monitoring and reporting the GHG performance of investments; and
- Support to the development of climate impact tools to support PFIs in their climate risk assessment, i.e. climate risk exposure assessment, calculation of environmental benefits, climate change stress testing.
- Periodic monitoring of the programme – develop the tools and templates for program management and reporting by MGFC to the AE, and hold training sessions.
- Training MGFC to work with PFIs on subjects covered in Activity 2.2.3.

**Output 2.2 Increased green finance capacity built among PFIs, project developers, households and policy makers**

A systematic approach of capacity building and awareness raising will be promoted at the level of (i) institutional stakeholders, with a view at creating an enabling environment for green finance; (ii) PFIs,

<sup>7</sup> For instance, responsible governance, ES&G and gender policy implementation and monitoring. Detailed energy auditing, technical assessments of projects and GHG monitoring and evaluation, internal and external reporting.

focusing on product and project pipeline development, the application of ESS and gender criteria, and MRV; (iii) project developers (construction companies, manufacturers and importers of EE technologies); and (iv) targeted end users (businesses and households) focusing on awareness raising, behavioral change and access to financial services.

### Policy makers

#### **Activity 2.2.1 Development of green finance standards**

Expert support will be brought to relevant institutional stakeholders to develop sector specific guidelines and criteria complementing the “Green Taxonomy” (jointly approved by the heads of Ministry of Finance, Central Bank of Mongolia, Financial Regulatory Commission, and Deposit Insurance Corporation) that defines the green finance standards for product categories that can be financed by MGFC. Synergies with existing TA will be sought (e.g. ADB AHURP on green building standards, noted further in Section B.1). The Executing Entity will work with relevant stakeholders (MET, MCUD, MSFA, Banks and project developers) and participate in working groups to help elaborate the relevant standards (e.g. green mortgage).

#### **Activity 2.2.2 Support for the drafting of a law on NBFIs doing wholesale lending**

As per GIG’s recommendations, MGFC shall support the drafting of a law to ensure and enforce MGFC’s green mandate, commitment to good corporate governance, and enable MGFC accomplish its purposes in its entirety. Over time, the MGFC is expected to transition into an independent green financial institution, whose business model and operations are well accepted and suitable regulatory documents adopted (similar to the UK’s Green Investment Bank). As part of this activity, a legal advisor will be hired to work with the government to draft a law on NBFIs involved in wholesale lending. The advisor will oversee consultations with relevant stakeholders to ensure inclusiveness of views and support for the draft law. As a public-private partnership, the MGFC will meet regularly with relevant government offices to provide feedback and guidance on the law, ensuring its independence, and will work to get it approved by Parliament.

### PFI’s

#### **Activity 2.2.3 Comprehensive capacity building programme for PFIs**

The Executing Entity will support capacity building for the PFIs to support the adoption of green finance and align their goals with the Paris Agreement. This activity will develop a comprehensive training programme which will address the following PFI needs:

- Training of PFIs on green taxonomy, green finance product development, and marketing and awareness raising.
- Identification of green business opportunities among existing and new clients, and green funding opportunities.
- Development of internal PFI capacity for GHG emissions measurement, monitoring, and reporting, and compliance with MGFC ESS and gender requirements.
- Identification of opportunities to incorporate Paris Agreement Goals and climate target segments into PFI’s business, investment, and strategic goals and plans.
- Assessment of PFI’s existing credit portfolio and loan products, and the relevant environmental, climate, and social risks associated with them.

#### **Activity 2.2.4 Technical assistance for market assessment, feasibility studies and energy audits of selected projects**

The Executing Entity will commission a consultant or firm to support MGFC’s green business development activity by providing TA to mature projects needing support with feasibility or specific pre-identified technical services. As the number of firms and consultants capable of providing such support are limited,

the Executing Entity will commission such firm or consultant according to its internal guideline on the Comparison Method of Procurement, wherein the Executing Entity shall send a request for quotation to the qualified firms or consultants and make a selection based on the quotes received. Additional sectoral market assessments will be carried out to identify market opportunities for additional green product lines.

#### Project developers

##### **Activity 2.2.5 Capacity building programme for green housing developers, construction material manufacturers and suppliers, and energy intensive users**

A capacity building program will be designed and implemented for project developers on the three markets targeted by MGFC. This will include workshops for EE housing design, site visits between developers, and other focused training activities. These site visits will be part of the capacity building program designed and facilitated by MGFC so that project developers can have targeted learnings from developers with differentiated expertise. Exchanging knowledge would be part of the site visits. Synergies with existing projects (XacBank's EE Consumption Loan grant component, EE advisory and financial intermediation for sustainable housing in unplanned areas of Ulaanbaatar, GERES NGO) will be explored.

#### Ger area and rural communities

##### **Activity 2.2.6 Engagement and capacity building of rural and ger area sub-district representatives and CSOs**

To raise awareness in rural and ger area households about the rationale for switching to clean technologies, available financial and other forms of support from MGFC, and to obtain feedback on technologies already in use, a network of local representatives will be formed with the contribution of Ulaanbaatar City Municipality, local governments and the Ministry of Environment and Tourism. Representatives will hold regular focus group discussions at the level of their respective administrative divisions.

##### **Activity 2.2.7 Creation and facilitation of a network of women and vulnerable groups benefiting from MGFC financial products (green housing and insulation)**

The Accredited Entity as the Executing Entity, with the participation of MGFC and PFIs, will support the creation of a network to empower women and vulnerable, underserved communities living in the ger area through networking events, trainings and information sessions. Initially supported through the grant component, the network will eventually be funded by MGFC. Partnership with women and gender NGOs, such as the Mongolian National Gender Equality Center or Young Women for Change, will be explored.

#### **B.4. Implementation arrangements (max. 1500 words, approximately 3 pages plus diagrams)**

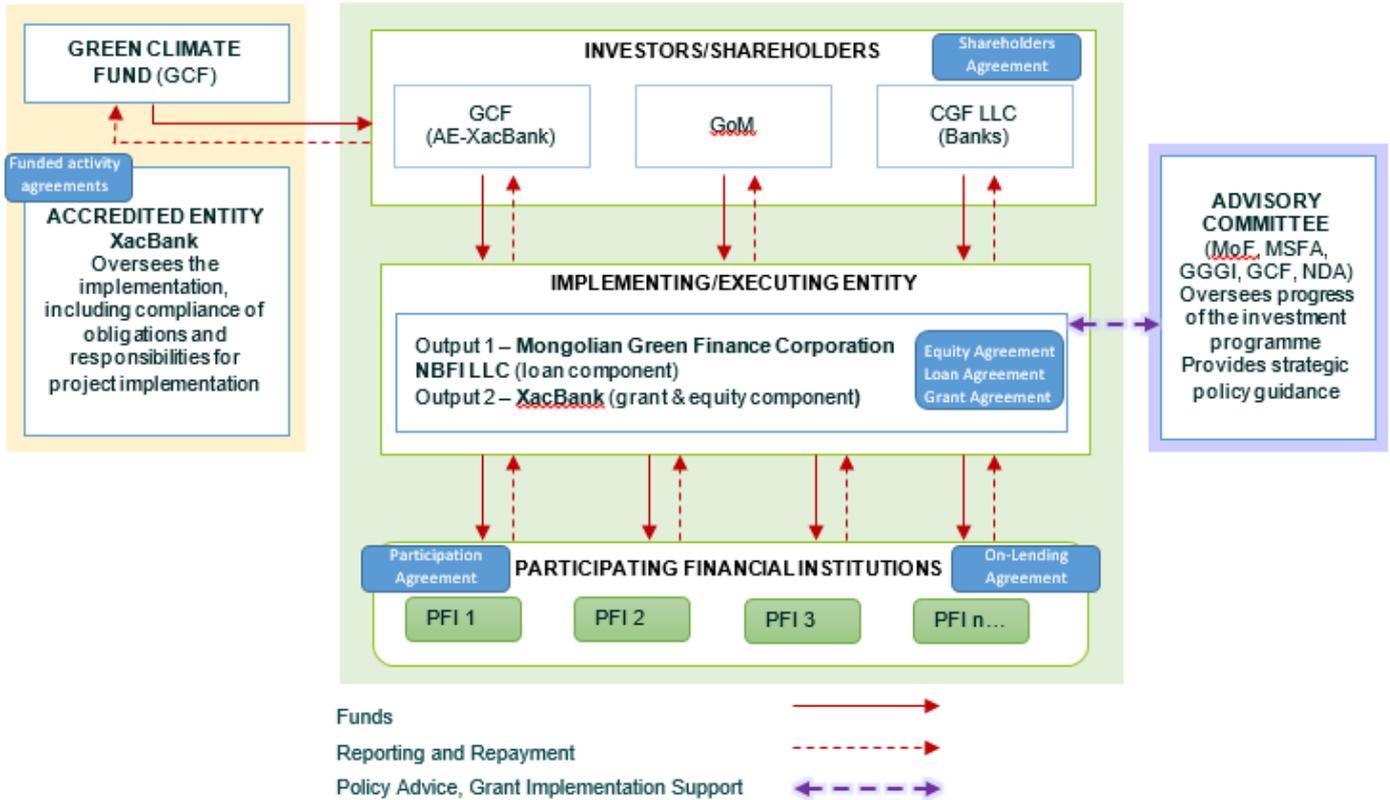
An overview of detailed implementation considerations across the below-listed topics is included in Section G.3 Financial management and procurement:

- International FI Management Advisory Support
- PFI Selection
- Financial management / Regulatory
- Financial accounting
- Procurement
- Disbursement mechanism
- Auditing and regulatory compliance monitoring

### Institutional arrangements

Multi-level stakeholders from public, private and international provenances will be involved in the management and operations of the MGFC, as mapped in Figure B.4.1.

Figure B.4.1 Stakeholders map and implementation design



The investors, stakeholders, and PFIs will engage in a number of contractual agreements in order to ensure the successful implementation of the MGFC:

- **Shareholder Agreement:** An agreement between the initial shareholders of the MGFC (GCF represented by XacBank, GoM, CGF LLC) to define shareholder rights and responsibilities, ensuring MGFC's independence.
- **Participation Agreement:** A single agreement between the MGFC and all PFIs that provides the overarching terms and conditions for working with the MGFC.
- **On-lending Agreement:** Individual agreements between the MGFC and each PFI, laying out the terms and conditions for receiving funds for green projects. These agreements may vary based on the PFI, what projects are approved for each bank, and other factors.

### Governance

XacBank as GCF Accredited Entity (AE) will be representing the GCF both at Shareholder and Board levels, and its main responsibility will be to represent GCF's investor interests and provide project oversight and quality assurance, including the below, as the Project Management Unit (PMU) of the project.

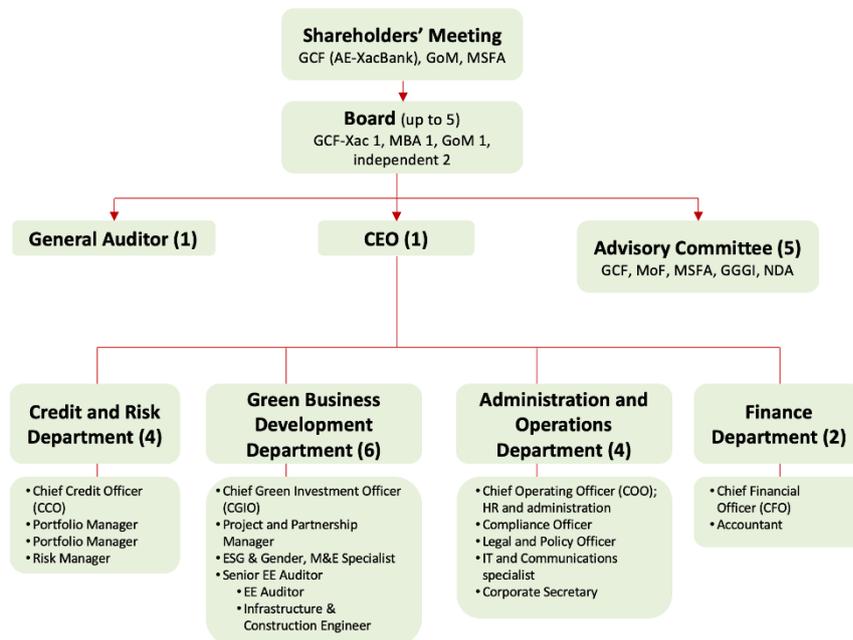
- project preparation oversight;
- project management and implementation oversight, including financial management;
- project completion and evaluation oversight;

- oversight of reporting and knowledge-management;
- ensure appropriate project management milestones are managed and completed through independent monitoring, review and assessment;
- monitor the project compliance with environmental and social safeguards, social dimensions and gender development.

XacBank will also act as the Executing/Implementing Entity for the implementation of the following Output: *Component 2. Technical Assistance Grant - The capacity of MGFC and the enabling environment for green finance are strengthened* which is a TA grant component.

The MGFC will be the Executing/Implementing Entity for *Component 1: Wholesale lending to PFIs - Commercially viable energy efficiency, low carbon and affordable housing projects are identified, financed and implemented*. MGFC will comprise approximately 33 full time staff members (once operations are stabilized after the initialization phase), and be in charge of executing eligible activities supported by the GCF under the oversight of the AE. MGFC's organization/management structure is shown in Figure B.4.2.

**Figure B.4.2 MGFC's Organizational Structure**



The Shareholders Meeting, comprised of the common shareholders (GCF through its AE - XacBank, CGF LLC and GoM), is the principal governing body of the MGFC in accordance with the Company Law of Mongolia. The Shareholders are responsible for formulating the vision/mission of the organization, and matters related to the restructuring and liquidation of the organization. Shareholders appoint the Board of Directors (BOD), whose main responsibility is to ensure that MGFC strategies and policies are in line with the mission of MGFC, and to be an effective liaison between the Shareholders and the Executive Management Team (EMT).

To provide preliminary proof of capacity, banks have established the MGFC NBFI LLC. Currently, the MGFC NBFI LLC has one shareholder, CGF LLC, which is a shell company owned by the Mongolian Bankers Association (MBA) and 6 banks.

Consultation with stakeholders revealed that there is existing local capacity that could manage and lead the operations of the MGFC. There are cadre of qualified experts in the areas of financial management, credit analysis, share- and stakeholders' coordination, green project development, and compliance with legal and regulatory requirements. As such, members of the Board of directors and EMT have been appointed from this pool of qualified experts following discussions with the GCF.

MGFC is governed and supervised by the Board, comprised of 5 directors, 3 from representing shareholder groups, and 2 independent directors with necessary skills and qualifications determined in Annex 3 of the Charter of the BOD. The Chairperson of the Board is chosen from the independent Board directors. Currently, the BOD consist of the CEO of AE-XacBank, CEO of MBA, Head of Green Development Policy and Planning of MET, and 2 independent members with experience in sustainable finance and investment banking. One of the independent members is an expat, a seasoned investment banker experienced in US and APAC economies, including Mongolia.

The Board has full responsibility for funding decisions and ensures that its policies and development strategies are in line with the mission of the MGFC, and making management decisions by general consensus with preference over vote-based majority (supermajority in some cases). The Board of the MGFC adopts various policy documents. It has approved and adopted 17 policy documents, including the Green credit policy, Financial risk management policy, E&S Policy, Compliance Management Policy and Gender policy.

MGFC's Green credit policy is the mandate and authority of MGFC's Board. The policy and Green Impact Framework are developed based on international and local best practices and used in addition to other governance best practices as identified by Green Investment Group.

Board decisions are made in accordance with standards that ensure management for sustainable development, climate impact, ESS and gender mainstreaming, cost effectiveness, fairness, integrity, transparency and efficiency. The Board will meet four times a year or more as needed if deemed necessary by the Board Chair or two members of the Board or CEO.

The Advisory Committee (AC) is appointed by the MGFC Board and shall comprise representatives of interested public and private entities including, at this point, the National Focal Point for the GCF, GGGI, MSFA, GCF (not represented by XacBank in the AC) and GoM. Other relevant institutions shall be invited to join the AC when/if needed. The Chairperson of the AC is elected by the Board by general consensus, and the GCF National Focal Point was appointed as AC Chairperson. The AC's function and roles can be outlined as follows:

- Non-binding but informed guidance on MGFC policy direction, its content and development, to match national priorities and NDC;
- Guidance on whether respective organization's objectives and interests are being properly addressed/met;
- Advice with identifying additional sources of green finance and funding;
- Reception of regular updates and reports on MGFC's activities,
- Other advice on any issues raised by the MGFC Board directors or Executive management, including, but not limited to:
  - Exploration of new business ideas for MGFC

- Development of a governance framework conducive to sustainable growth of the MGFC
- Business performance of MGFC.

AC meetings will take place annually, with periodic meetings as needed throughout the year. The Board will actively seek and take into account the input from the AC.

The General Auditor, appointed by the Board, shall be responsible for internal financial auditing, including financial review, internal control and regulatory monitoring in accordance with the relevant national and international auditing standards and regulations. The General Auditor reports to the Board.

A local EMT is appointed by the MGFC Board in consultation with the Shareholders (currently only with sole shareholder CGF LLC). They can be reappointed with entry of other Shareholders (GCF and GoM).

The EMT, led by the Chief Executive Officer (CEO), is responsible for MGFC's day-to-day management and operation, decision-making and for the establishment of internal control processes within the organization. CEO's prime responsibility is to ensure that the project produces the results specified in the project document, to the required standard of quality and within the specified constraints of time and cost. Other key members of the Executive management approved by the Board include Chief Credit Officer (CCO), Chief Green Investment Officer (CGIO), Chief Operating Officer (COO), and Chief Financial Officer (CFO). A candidate to Chief Credit Officer is pending approval by the Board.

The Credit Committee, comprised of the EMT members, select qualifying PFIs, and assess, review and recommend portfolio loan proposals for Board approval, one of the key functions to wholesale lending.

MGFC will have four core departments, which are 1) Credit and Risk, 2) Green Business Development, 3) Administration and Operations and 4) Finance departments as detailed next.

- Credit and Risk Department, led by the CCO, will comprise two Credit Portfolio Managers. Its main responsibility as a unit is to manage selection of PFIs and on-lending process, review PFI loan applications and carry out due diligence and risk assessment analysis in accordance with credit and risk regulations. The CCO will act as the Chief Risk Officer to maintain the operations of the MGFC within risk tolerance and appetite to be approved by the Board of Directors.
- Green Business Development Department, led by the CGIO, will be of critical importance in MGFC's operation to achieve its desired goals and objectives. This innovative and unique to MGFC unit shall bear responsibility for green business development including identification and development of new financial products to be financed through MGFC; sourcing of additional green funding; partnership and liaison; and marketing. Furthermore, this department shall contain a technical auditing unit, comprise of a Senior EE auditor, EE auditor and a construction engineer, which will be in charge of carrying out energy efficiency audits at qualifying large designated entities and also on green mortgage products, and a marketing & content development specialist. In addition, environmental and social safeguards, and gender policy development and implementation; and monitoring, reporting and evaluation functions set forth in MGFC's E&S Policy and Gender Policy will be carried out by an ESG & Gender specialist, and an MRV specialist. They will also provide regular trainings to PFI staff on EE auditing and related technical aspects as part of a TA grant scheme. The Green Business Development Department shall generate regular reports on GHG emission reduction outcomes for Board review and communication to AE and GCF.
- Administration and Operations Department, led by the COO, sustains and ensures seamless operation of the organization including HR and general administration, compliance, legal and policy matters (1 officer), IT and communications (1 specialist) and general secretarial functions (single corporate secretary among the Board, CEO and COO). The COO will act as the Chief Compliance

Officer and ensures implementation of MGFC's Compliance Management Policy, ensuring compliance obligations are incorporated in MGFC's operations, assessing and identifying ways to mitigate compliance risks, and ensuring that compliance breaches are reported and managed. This department is also in charge of procurement.

- Finance Department, led by the CFO and assisted by one accountant and one treasurer, is responsible for basic bookkeeping, producing financial statements, controlling expenditure, management of cash flows, budgets and forecasting, management of taxes, financial reporting, and analysis and more.

An international advisory firm is expected to be hired to further enhance and complement the capacity of the local management team of MGFC. In its capacity as an Executing Entity, in consultation with the MGFC BOD, EMT and Shareholders, XacBank will be responsible for selecting and contracting an international advisory entity to provide management and technical advisory services to the MGFC. The international advisory firm is expected to provide services in the two areas of work below:

1. On-going advisory support for the management and operations of MGFC
2. Technical support related to PFI due diligence and GHG evaluation, monitoring and reporting

The MGFC Programme proposal includes a grant component (Component 2) of USD 2 million for the institutional capacity building of the MGFC as well as support in technical areas. More than USD 1,000,000 will be dedicated to build the capacity of the MGFC, and the remaining grant amount will be used for technical assistance and capacity building for PFIs, green housing developers and suppliers, large energy users, policy makers and households in order to create and strengthen an enabling environment for green finance.

### **Governance and Management Principles**

The MGFC is envisioned to become a pioneering national financing vehicle, first of its type in Mongolia and possibly in the region. As such, an ingenious and flexible approach in management and operations is expected, particularly in the early stages of its establishment. Still, MGFC will adhere to the highest professional and industry standards and principles. In particular, in addition to applicable Mongolian legal requirements, MGFC will adhere to the principles of [G20/OECD Principles of Corporate Governance](#), Mongolia's Corporate Governance Code<sup>8</sup> and OECD Guidelines on Corporate Governance of State-Owned Enterprises (*if and as applicable*) in terms of transparency, open competitiveness and knowledge-based approach in governance, management and recruitment.

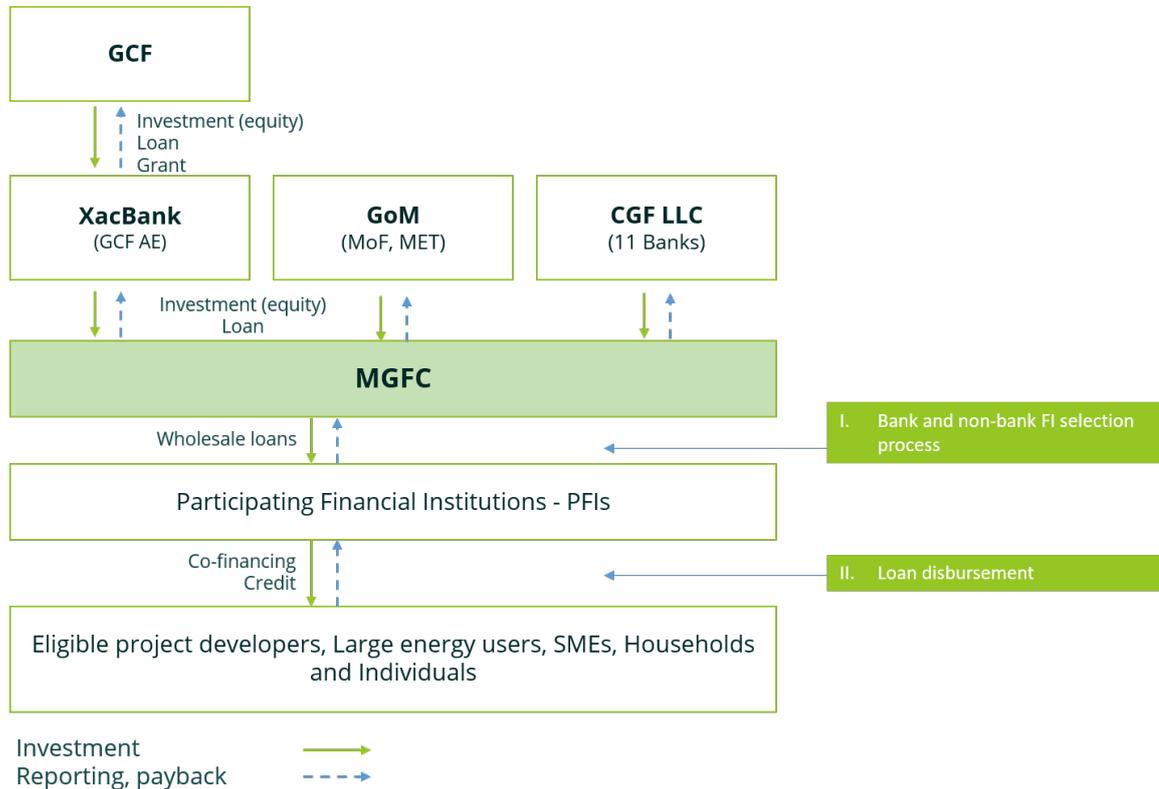
### **PROGRAMME IMPLEMENTATION ARRANGEMENTS**

The flow of funds structure in programme implementation is shown below (Figure B.4.3). It also demonstrates the two main steps in its implementation arrangement, which are described in detail after.

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<sup>8</sup> Adopted by Financial Regulatory Commission of Mongolia (2014).

Figure B.4.3 Funds flow diagram



The procedure of provision of finance through MGFC will be governed by the Credit Policy (Annex 26) and Credit Procedures (Annex 49) and start with the Selection of qualifying PFIs, as follows.

- **PFI Selection and On-lending Process**

MGFC's objective is to serve as an effective vehicle to mobilize and channel domestic and international development funding resources to PFIs, enabling these PFIs to lend to green projects and companies. The standard process shall follow the following steps:

- *PFI selection criteria* defined in the Credit Policy shall be used and monitored regularly. The set of criteria, which serves as main benchmark for PFI eligibility for credit, is based on indicators such as PFI's financial performance and management, green impact management, environmental and social safeguards and gender policy and capacity, track record, leverage ratio, disbursement mechanism, assets, market size and more;
- Following an open call issued by the MGFC every 12 months, PFI's will *submit an application* to MGFC, providing supporting/supplementary documents if needed;
- *Application review, due diligence, loan appraisal and risk assessments* shall be carried out at the Credit and Risk department. Upon successful assessment, in consultation with the Credit Committee, the CCO will submit a list of qualifying PFI's to the Board's decision for tentative Loan approval. If the application is not complete or does not satisfy basic criteria, the application shall be either returned to the PFI with relevant comments for improvement or rejected;

- *The Board's approval* shall include key lending terms, action plans and conditions, and also outline which green financial products to be offered through applicant PFI;
  - *On-Lending Agreement (Annex 29)* will be drawn and the contract with the qualifying PFI will be signed;
  - Funds will be made available to PFIs and deposited into their accounts after the final approval of each individual project/loan and up to the pre-agreed limits;
  - PFIs will transfer scheduled repayments to the MGFC account;
  - PFIs will deliver *regular reports* to the MGFC with financial data on progress of existing loan agreements and impact, ESG and gender action plans which would enable regular portfolio reviews for timely assessment and intervention. *Monitoring and evaluation (M&E)* will be carried out by both the MGFC and the PFI internally according to the MGFC's M&E Plan (Annex 11) and Green Impact Framework (Annex 43).
- **Sub-loan Disbursement Process (to end-borrowers)**

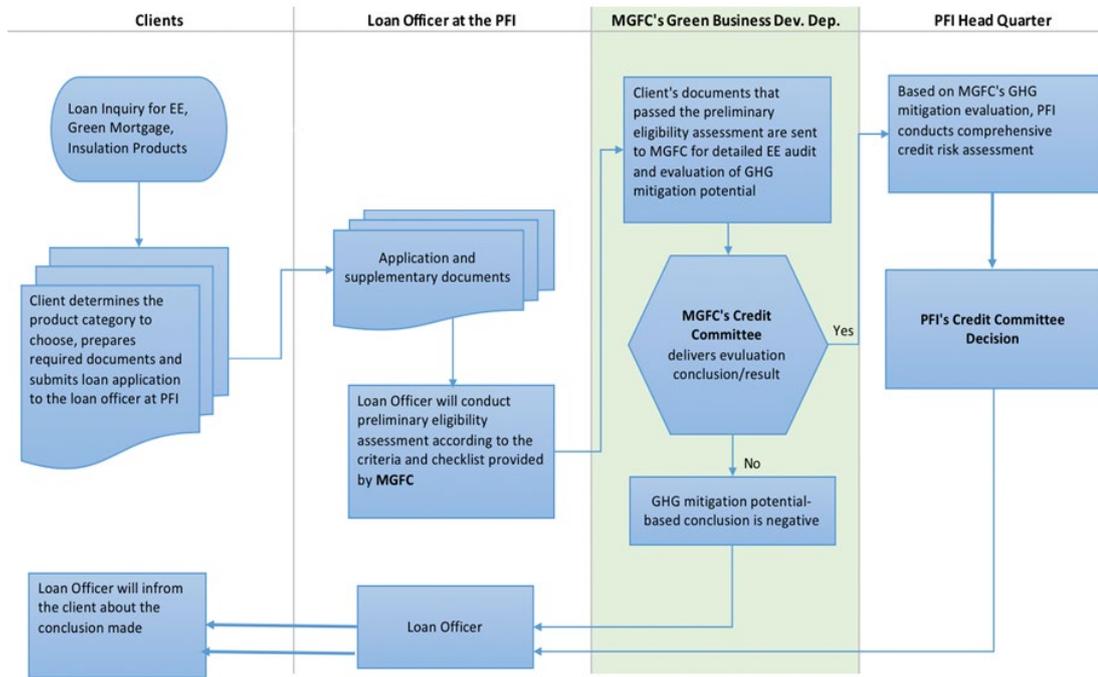
MGFC's green loan disbursement process shall differ from standard bank loan assessment and approval processes. It will require a clear definition of roles and responsibilities between the MGFC and PFIs (included in the On-Lending Agreement and E&S Policy) and their close collaboration throughout the loan assessment and approval process to ensure only products satisfying GHG emission reduction criteria are financed. The following will be the main steps in loan disbursement process for MGFC's Category B loan products:

- Customers submit the request for loan to PFI.
- The PFI carries out initial E&S screening using a checklist; loan applications are inspected against basic eligibility; due diligence assessment is performed.
- Pre-approved cases are referred to the MGFC and the MGFC assesses the product for climate potential. Application review, project due diligence, loan appraisal and risk assessments shall be carried out at the Credit and Risk department while EE auditors and engineers carry out EE technical audit to calculate the GHG emission reduction potential;
- EE audit verdict is issued, approved by the Credit Committee at MGFC and delivered to PFIs;
- If EE audit is successful, PFIs perform full credit assessments on qualifying loan requests in line with respective organization's and MGFC's specifications and requirements;
- PFIs process the loan request in line with their policies and procedures, PFIs' credit committee makes the final decision on loan application;
- Loan repayments are made according to schedule;
- Banks will deliver regular reports on portfolio loans to the MGFC;
- Banks will be in charge of Monitoring and Evaluation of individual loan products.

Within 2 years of project operations, MGFC will ensure to transfer technical skills and expertise in green product evaluation and auditing to PFIs through a series of targeted trainings, so that Step 3 in the sub-loan disbursement process can be carried out at the PFI level. This will help the sustainable and successful operations of both MGFC and PFIs.

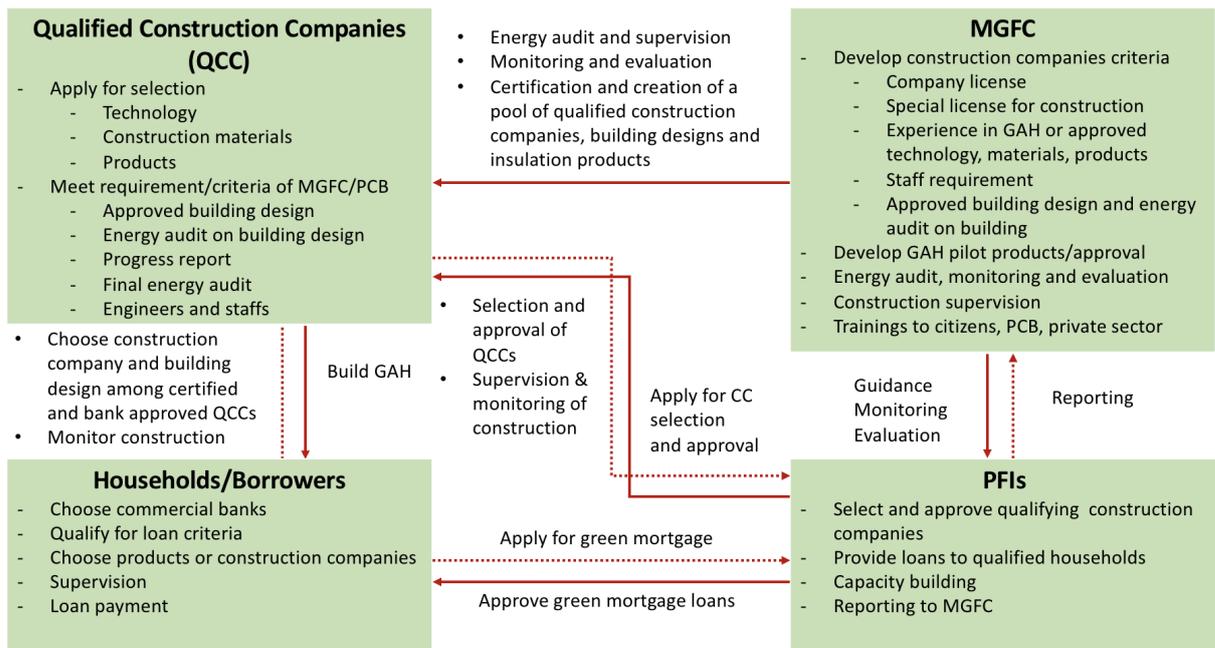
The following chart illustrates the Loan disbursement/approval process as part of programme implementation arrangements – more detail can be found in Annex 21 and Annex 43 (Green Impact Framework).

**Figure B.4.4 Loan approval process (for MGFC's Category B loans)**



With Green affordable housing (GAH) and Thermal insulation (TI) products, the implementation arrangement will be different. It will involve substantial participation of another stakeholder, Qualified Construction Companies, which will provide eligible services. The operational scheme of GAH and TI is shown in Figure B.4.5. and loan approval process is elaborated below, based on the Green Impact Framework (Annex 43).

**Figure B.4.5 Implementation scheme of green affordable housing and thermal insulation products**



The following will be the main steps in loan disbursement process for MGFC's Category A loan products:

- Customers will approach qualified suppliers and construction/insulation companies (based on list from banks) that will conduct pre-evaluation of houses on a case-by-case basis to measure heat loss of each house, which will serve as the baseline of each loan.
- A Pre-Evaluation report will determine suitable retrofitting measures and corresponding anticipated energy savings. This report together with an invoice will be provided to the loan applicant, who will submit them to the PFI.
- The PFI will review the report and invoice, and verify that the proposed insulation measures meet MGFC's energy saving requirement of 20%. Upon verification of the Pre-Evaluation Report, the customer fills out a loan application form.
- Together with the loan decision, the PFI will add to the loan agreement covenants related to post-loan evaluation requirements including the regular submission of energy bills.
- PFIs process the loan request in line with their policies and procedures, PFIs' credit committee makes the final decision on loan application and disburses loan amount to either the customer or supplier;
- Loan repayments are made according to schedule;
- Banks will deliver regular reports on portfolio loans to the MGFC;
- Banks will be in charge of Monitoring and Evaluation of individual loan products.

The following will be the main steps in loan disbursement process for MGFC's Category C loan products:

- Customers will choose from the list of the eligible houses and approach PFIs.
- PFIs will check the applicant's proposed house to verify eligibility of the QCC and houses. If the house is not eligible, the EE Housing loan application will be terminated or transferred to a conventional mortgage product of the PFI.
- The customer fills out a loan application form and submit supporting loan documents.
- Once the loan decision is made, the loan applicant, the PFI, and the QCC will make a tri-party loan contract, which will also include covenants related to post-loan evaluation requirements including the regular submission of energy bills.

- Once the loan contract is signed by all parties, a certain part of the approved loan amount will be disbursed to the QCC and construction work will start.
- During the construction process, scheduled performance audits will be conducted to ensure the house is built in accordance with the pre- approved building design and plan. Where needed this may involve a site visit or request for additional information by MGFC’s in-house energy audit team.
- Once construction work is completed, a Pre-evaluation report will be issued and submitted to the PFI, and the remaining amount of the loan will be disbursed to the construction company;
- Loan repayments are made according to schedule;
- PFIs will deliver regular reports on portfolio loans to the MGFC;
- PFIs will be in charge of Monitoring and Evaluation of individual loan products.

**Implementation arrangement for TA disbursement**

XacBank will be the main entity for coordination and administration of TA component, namely the capacity-building and technical assistance activities of *Component 2: The capacity of MGFC and the enabling environment for green finance are strengthened*, as outlined in Annex 4.2. Selected implementing partners of specific outputs are described below.

**Table B.4.6 TA disbursement arrangements**

| TA supported activities to be implemented                                                                                  | Implementing partners | Percentage of TA grant disbursement |
|----------------------------------------------------------------------------------------------------------------------------|-----------------------|-------------------------------------|
| Output 2.1. MGFC business operations established in compliance with international standards and internal capacity is built | MGFC, XacBank         | 74%                                 |
| Output 2.2. Increased green finance capacity built among PFIs, project developers, households and policy makers            | MGFC, XacBank         | 26%                                 |

**B.5. Justification for GCF funding request (max. 1000 words, approximately 2 pages)**

Despite public and private support for ambitious environmental goals, Mongolia currently lacks the necessary resources to finance its planned transition to a low-carbon and resource-efficient economy while achieving its NDC targets. The financing necessary to achieve NDCs (mitigation) is estimated at USD 11.7 billion<sup>9</sup>, which far exceeds available local resources and requires mobilization of development and climate finance. The Mongolian banking sector liability averages at 4-6 months and the loan tenors average at 28.5 months to the private sector.<sup>10</sup> As of December 2018, the average deposit and lending rates were at 12.0% and 16.9% (17.2% for consumers) p.a. respectively.<sup>11</sup> Retail banks dominate the financial sector and account for 95% of the sector assets. Overall, the banking sector is relatively small, with total assets at 90% of GDP and loans at just 50% of GDP.<sup>12</sup>

<sup>9</sup> <http://ndc.mne.gov.mn/en/ndcPortfolio/3/3>

<sup>10</sup> 33 months for banking sector, 28.5 months for private sector, as of December 2017, Bank of Mongolia <https://www.mongolbank.mn/documents/statistic/loanbank/2017/m12.pdf>

<sup>11</sup> Monetary review, Dec 2017, BoM, <https://www.mongolbank.mn/documents/statistic/monetaryreview/2018/12.pdf>

<sup>12</sup> Mongolia, Article IV consultation, Country report 14/140, IMF, May 2017

Additionally, loans remain concentrated in five major sectors, due to the economy's heavy reliance on the mining sector and lack of diversification. As of 2018, more than 73% of loan assets were disbursed to mining, manufacturing, construction, and retail and wholesale sectors.

**Table B.5.1. Structure of the loan assets, as of Q4 2018**

| #            | Sector           | % of Loan assets |
|--------------|------------------|------------------|
| 1            | Retail/Wholesale | 23.0             |
| 2            | Construction     | 18.0             |
| 3            | Mining           | 15.0             |
| 4            | Manufacturing    | 17.0             |
| 5            | Others           | 27.0             |
| <b>TOTAL</b> |                  | <b>100.0</b>     |

The immature financial sector development, shortage of long-term financing mechanisms, lack of technology and human and institutional capacity hamper the implementation of climate mitigation policies and measures, and poses challenges for the country's paradigm shift towards low-carbon, climate-resilient development. Hence, Mongolia's NDC and transition into low-carbon, resource-efficient economy is contingent upon gaining access to new technologies and sources of finance through international financing mechanisms. If the actions described in national policies and programs are implemented properly, GHG emissions can be reduced by about 25% by 2025 and about 28% by 2030.<sup>13</sup>

However, despite this potential, Mongolia remains behind its defined commitments and set targets. Another challenge is the lack of long-term and low-cost financing instruments. High lending interest rates and relatively short tenors present a particular constraint for green projects, which often need higher upfront investment, longer-term, affordable credit. Private sector funds alone are ill-suited for addressing the challenge due to its high costs, with EE/RE measures often requiring transfer of technology as well as additional funding. Recognizing this gap and the urgency to take action(s), the GoM actively seeks innovative mechanisms and partnerships with IFIs and the private sector to finance its climate agenda.

The lack of coordination between government institutions hampers the necessary channeling of public finance towards effective NDC implementation. In addition, Mongolia's capacity to borrow has been restricted by the IMF program. Existing climate mitigation-related financing facilities do not reach the scale or the level of concessionality needed to drive transformational change. In 2016, only 115<sup>14</sup> out of 387<sup>15</sup> million USD received by Mongolia in ODA were considered climate-related, according to the OECD Climate-related development finance tracker. GCF's investment is the ignition key to leverage the investment of other stakeholders.

GCF's potential equity and loan contributions are ideal flexible instruments for jumpstarting a new multi-stakeholder financial institution with a vision to grow into a green bank, dedicated for climate change mitigation and adaptation financing. The conditions (concessionality) and instruments offered by the GCF are suited for the full operationalization of MGFC. As explained in Section C, without support from GCF, the

<sup>13</sup> Chapter 3: Mitigation actions and their effects, Mongolia's initial biennial update report under UN Framework convention on climate change, August 2017

<sup>14</sup> <https://tabsoft.co/2KLyg1E>

<sup>15</sup> <https://bit.ly/2jOkPic>

financial returns from the project are insufficient to pay the sources of capital used, while the macroeconomic situation of Mongolia is such that neither the public sector nor the private sector are able to make these investments on their own. GCF involvement and leadership is necessary, not only because of financial investment, but also in terms of maintaining prudent governance, institutional capacity and balancing interest between the private and public sectors. The ambition of MGFC also aligns with GCF’s investment criteria, particularly in terms of inducing transformational impacts on the Mongolian financial sector towards support of green objectives.

Several actors have taken a pioneering role in jumpstarting green financing projects in Mongolia with significant assistance from the GCF, such as XacBank and the Asian Development Bank. But these efforts alone cannot meet Mongolia’s target goals. A larger, independent institution like the MGFC is necessary to mainstream green financing projects to the scale necessary to make transformational impact and support Mongolia in reaching its national emission reduction targets. The transformational and scaling impact of the MGFC is discussed in Section B.2; in this section complementarity with existing GCF credit lines in Mongolia is discussed in more detail in the context of MGFC’s initial product pipeline, with recognition that the ultimate goal of MGFC is to build on the anticipated early successes of this initial pipeline of feasible and proven products to attract additional financing and extend into more transformational and underserved sectors (discussed in Section D.2).

**Table B.5.2. MGFC initial pipeline complementarity with existing GCF credit lines in Mongolia**

| <i>XacBank</i>                                     |                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Project name</b>                                | <b>Project purpose / pipeline</b>                                                                                                                   | <b>MGFC initial pipeline and scale complementarity</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Business Loan Programme for GHG Emission Reduction | Oriented towards micro, small, and medium-sized enterprises (both producers of EE equipment and technology and end-users of the efficient products) | <ul style="list-style-type: none"> <li>● <b>Category A:</b> No overlap</li> <li>● <b>Category B:</b> MGFC Category B business loans are targeted toward Mongolia’s energy intensive users, so-called Designated Entities (DEs) that are required under the Law on Energy Conservation to reduce their energy consumption. <ul style="list-style-type: none"> <li>○ These DEs are discussed in detail in the submitted Annex 2 Feasibility Study, Annex B, with information taken from PwC’s energy audits of 15 DEs including Nalaikh Thermal Energy Company, Suu LLC, Govi JSC, Mongolian Nation TV/Radio Station, and others.</li> <li>○ These 15 DEs present a financing need of over 140 billion MNT (over USD 50 million) – and only a portion of the need of 229 DEs identified under the Law on Energy Conservation – demonstrating the sustained need for additional finance mobilized beyond existing credit lines.</li> <li>○ MGFC’s Category B loans will serve sectors and market players differentiated from the micro-, small-, and medium-sized enterprises that have been served under XacBank’s business loan program.</li> </ul> </li> <li>● <b>Category C:</b> No overlap</li> </ul> |
| Renewable Energy Programme                         | Financing of a commercial scale renewable energy facility                                                                                           | MGFC’s initial product pipeline has no overlap with the Renewable Energy Programme. However, as described in Section D.2, the goal is for MGFC to build on initial successes (by starting with feasible, proven products) to extend into transformational sectors and opportunities, one of which includes build out of regional electricity distribution and transmission networks to facilitate delivery of large-scale renewable energy produced in Mongolia to load centers across Mongolia and the rest of Asia.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

| <p>Energy Efficient Consumption Loan Programme</p>                                      | <p>Household-oriented loan program targeting provision of energy efficient heating devices (approximately 2,400 loans), technical guidance for detached house retrofits (approximately 1,400 loans), and EE row-houses (approximately 700 loans)</p>                     | <ul style="list-style-type: none"> <li>● <b>Category A:</b> XacBank's program can provide best practices (covering partnership agreements with material suppliers, NGO collaboration, energy auditors and technical advice, and integration of retrofit craftsmen) to extend the market impact to cover the identified 40,000+ households in need of retrofits in Ulaanbaatar's ger area (as estimated in Annex 2) as well as numerous households rural communities in the future. The ability to demonstrate initial successes with proven products will be critical for MGFC to attract further financing. As described in Section D.2, once MGFC attracts additional funding it could potentially provide financing for retrofitting for existing apartment buildings.</li> <li>● <b>Category B:</b> No overlap</li> <li>● <b>Category C:</b> As described in Annex 2, the MGFC's two forms of energy efficient housing are detailed below. Those housing types are not being supported in XacBank's Energy Efficient Consumption Loan Programme pipeline.</li> </ul> <table border="1" data-bbox="794 779 1476 1339"> <thead> <tr> <th>No.</th> <th>Green affordable housing solutions</th> <th>Size, sqm</th> <th>Price per sqm, MNT</th> <th>Total price of housing unit, MNT mil.</th> <th>Major indicators</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Non-chimney energy efficient house</td> <td>38</td> <td>740,000</td> <td>28.12</td> <td>-energy efficient (reduced heating energy demand by 60%)<br/>-individual infrastructure solution<br/>-water efficient (collection of rain water) &amp; septic tank, waste classification<br/>-domestic construction materials<br/>-short construction period</td> </tr> <tr> <td>2</td> <td>Low energy house</td> <td>35.8</td> <td>972,500</td> <td>34.8</td> <td>-energy efficient (reduced heating energy demand by 50%)<br/>-individual infrastructure solution<br/>-water efficient<br/>-domestic/local construction materials</td> </tr> </tbody> </table> <p>XacBank's plans to share best practices related to engaging and establishing agreements with the EE housing supplier companies and auditing the energy performance of such housing. This will help MGFC demonstrate early successes which will be critical to attract further financing to fill the market need, which is estimated at approximately USD 1.2 billion, assuming 85,000 households to move into these forms of housing (as noted in Annex 2).</p> | No.                | Green affordable housing solutions    | Size, sqm                                                                                                                                                                                                                                            | Price per sqm, MNT | Total price of housing unit, MNT mil. | Major indicators | 1 | Non-chimney energy efficient house | 38 | 740,000 | 28.12 | -energy efficient (reduced heating energy demand by 60%)<br>-individual infrastructure solution<br>-water efficient (collection of rain water) & septic tank, waste classification<br>-domestic construction materials<br>-short construction period | 2 | Low energy house | 35.8 | 972,500 | 34.8 | -energy efficient (reduced heating energy demand by 50%)<br>-individual infrastructure solution<br>-water efficient<br>-domestic/local construction materials |
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| No.                                                                                     | Green affordable housing solutions                                                                                                                                                                                                                                       | Size, sqm                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Price per sqm, MNT | Total price of housing unit, MNT mil. | Major indicators                                                                                                                                                                                                                                     |                    |                                       |                  |   |                                    |    |         |       |                                                                                                                                                                                                                                                      |   |                  |      |         |      |                                                                                                                                                               |
| 1                                                                                       | Non-chimney energy efficient house                                                                                                                                                                                                                                       | 38                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 740,000            | 28.12                                 | -energy efficient (reduced heating energy demand by 60%)<br>-individual infrastructure solution<br>-water efficient (collection of rain water) & septic tank, waste classification<br>-domestic construction materials<br>-short construction period |                    |                                       |                  |   |                                    |    |         |       |                                                                                                                                                                                                                                                      |   |                  |      |         |      |                                                                                                                                                               |
| 2                                                                                       | Low energy house                                                                                                                                                                                                                                                         | 35.8                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 972,500            | 34.8                                  | -energy efficient (reduced heating energy demand by 50%)<br>-individual infrastructure solution<br>-water efficient<br>-domestic/local construction materials                                                                                        |                    |                                       |                  |   |                                    |    |         |       |                                                                                                                                                                                                                                                      |   |                  |      |         |      |                                                                                                                                                               |
| <b>Asian Development Bank</b>                                                           |                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                    |                                       |                                                                                                                                                                                                                                                      |                    |                                       |                  |   |                                    |    |         |       |                                                                                                                                                                                                                                                      |   |                  |      |         |      |                                                                                                                                                               |
| <p>Ulaanbaatar Green Affordable Housing and Resilient Urban Renewal Project (AHURP)</p> | <p>Aims to redevelop 100 ha of highly climate-vulnerable and heavily polluting peri-urban areas into eco-districts, and deliver 10,000 green affordable housing units (15% social, 55% affordable housing, 30% market rate) that are energy efficient and affordable</p> | <p>MGFC will be able to harmonize well with the ADB project's current challenges and weaknesses. As Green Investment Group determined during its PPF activities, ADB colleagues advised that they were open to future collaboration opportunities with MGFC, to provide either commercial or concessional funding. ADB flagged that affordable housing and making cheaper funding available will be a pinch point for the project and that MGFC involvement would be welcome in that regard – thus encouraging Mongolian commercial banks to provide mortgages on commercial terms alongside ADB's activity. The MGFC's green affordable housing will be proposed in ger areas in line with the Ulaanbaatar City Master Plan into Ulaanbaatar 2020 Master Plan and Development Approaches for 2030 and air quality zones</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                    |                                       |                                                                                                                                                                                                                                                      |                    |                                       |                  |   |                                    |    |         |       |                                                                                                                                                                                                                                                      |   |                  |      |         |      |                                                                                                                                                               |

|                                                                          |                                                                         |                                                                                                   | <p>Further, AHURP aims to develop townhouses and low-rise apartments using private development funding, whereas MGFC aims to develop single houses. Additional detail on the complementary of the pipeline is shown below.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |            |             |                                            |                         |                                                              |                                                                                                   |                       |              |                                                            |             |                                            |                  |                                  |        |        |                                           |                                                                  |                    |                      |                                    |              |                         |                                                                         |                   |              |                    |                                                  |                |                                        |                      |                                   |                                                          |                                |                         |                                         |                 |                                                                          |                       |                       |
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|                                                                          |                                                                         |                                                                                                   | <table border="1"> <thead> <tr> <th data-bbox="837 383 1035 461">Indicators</th> <th data-bbox="1035 383 1236 461">ADB – AHURP</th> <th data-bbox="1236 383 1481 461">MGFC – Category C Green Affordable Housing</th> </tr> </thead> <tbody> <tr> <td data-bbox="837 461 1035 593">Location/site selection</td> <td data-bbox="1035 461 1236 593">Middle ger areas which is close to main trunk infrastructure</td> <td data-bbox="1236 461 1481 593">Middle and peri-urban ger areas which will not be connected to the central infrastructure network</td> </tr> <tr> <td data-bbox="837 593 1035 674">Land size requirement</td> <td data-bbox="1035 593 1236 674">Minimum 4 ha</td> <td data-bbox="1236 593 1481 674">Single households in ger areas (average 575 sqm land plot)</td> </tr> <tr> <td data-bbox="837 674 1035 754">Eligibility</td> <td data-bbox="1035 674 1236 754">100% of the land owners' agreement of 4 ha</td> <td data-bbox="1236 674 1481 754">Single household</td> </tr> <tr> <td data-bbox="837 754 1035 808">Min. size of the house/apartment</td> <td data-bbox="1035 754 1236 808">35 sqm</td> <td data-bbox="1236 754 1481 808">35 sqm</td> </tr> <tr> <td data-bbox="837 808 1035 938">Affordable housing price per square meter</td> <td data-bbox="1035 808 1236 938">1.1 million MNT/m2 (additional green features financed by grant)</td> <td data-bbox="1236 808 1481 938">1.0 million MNT/m2</td> </tr> <tr> <td data-bbox="837 938 1035 1016">Apartment/house type</td> <td data-bbox="1035 938 1236 1016">Townhouses and low-rise apartments</td> <td data-bbox="1236 938 1481 1016">Single house</td> </tr> <tr> <td data-bbox="837 1016 1035 1149">Green building features</td> <td data-bbox="1035 1016 1236 1149">Energy efficiency (additional insulation), PV solar panels, greenhouses</td> <td data-bbox="1236 1016 1481 1149">Energy efficiency</td> </tr> <tr> <td data-bbox="837 1149 1035 1227">Construction</td> <td data-bbox="1035 1149 1236 1227">Private developers</td> <td data-bbox="1236 1149 1481 1227">Small, medium construction companies/contractors</td> </tr> <tr> <td data-bbox="837 1227 1035 1305">Infrastructure</td> <td data-bbox="1035 1227 1236 1305">Connected to main trunk infrastructure</td> <td data-bbox="1236 1227 1481 1305">Individual solutions</td> </tr> <tr> <td data-bbox="837 1305 1035 1408">Number of affordable housing unit</td> <td data-bbox="1035 1305 1236 1408">5,500 affordable housing units by the end of the project</td> <td data-bbox="1236 1305 1481 1408">5,590 affordable housing units</td> </tr> <tr> <td data-bbox="837 1408 1035 1487">Development methodology</td> <td data-bbox="1035 1408 1236 1487">Land pooling and land swap to apartment</td> <td data-bbox="1236 1408 1481 1487">No resettlement</td> </tr> <tr> <td data-bbox="837 1487 1035 1624">Proposed AH financial products<br/>Down payment<br/>Tenor<br/>Interest rate</td> <td data-bbox="1035 1487 1236 1624">20%<br/>30 years<br/>8%</td> <td data-bbox="1236 1487 1481 1624">30%<br/>10 years<br/>8%</td> </tr> </tbody> </table> | Indicators | ADB – AHURP | MGFC – Category C Green Affordable Housing | Location/site selection | Middle ger areas which is close to main trunk infrastructure | Middle and peri-urban ger areas which will not be connected to the central infrastructure network | Land size requirement | Minimum 4 ha | Single households in ger areas (average 575 sqm land plot) | Eligibility | 100% of the land owners' agreement of 4 ha | Single household | Min. size of the house/apartment | 35 sqm | 35 sqm | Affordable housing price per square meter | 1.1 million MNT/m2 (additional green features financed by grant) | 1.0 million MNT/m2 | Apartment/house type | Townhouses and low-rise apartments | Single house | Green building features | Energy efficiency (additional insulation), PV solar panels, greenhouses | Energy efficiency | Construction | Private developers | Small, medium construction companies/contractors | Infrastructure | Connected to main trunk infrastructure | Individual solutions | Number of affordable housing unit | 5,500 affordable housing units by the end of the project | 5,590 affordable housing units | Development methodology | Land pooling and land swap to apartment | No resettlement | Proposed AH financial products<br>Down payment<br>Tenor<br>Interest rate | 20%<br>30 years<br>8% | 30%<br>10 years<br>8% |
| Indicators                                                               | ADB – AHURP                                                             | MGFC – Category C Green Affordable Housing                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |             |                                            |                         |                                                              |                                                                                                   |                       |              |                                                            |             |                                            |                  |                                  |        |        |                                           |                                                                  |                    |                      |                                    |              |                         |                                                                         |                   |              |                    |                                                  |                |                                        |                      |                                   |                                                          |                                |                         |                                         |                 |                                                                          |                       |                       |
| Location/site selection                                                  | Middle ger areas which is close to main trunk infrastructure            | Middle and peri-urban ger areas which will not be connected to the central infrastructure network |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |             |                                            |                         |                                                              |                                                                                                   |                       |              |                                                            |             |                                            |                  |                                  |        |        |                                           |                                                                  |                    |                      |                                    |              |                         |                                                                         |                   |              |                    |                                                  |                |                                        |                      |                                   |                                                          |                                |                         |                                         |                 |                                                                          |                       |                       |
| Land size requirement                                                    | Minimum 4 ha                                                            | Single households in ger areas (average 575 sqm land plot)                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |             |                                            |                         |                                                              |                                                                                                   |                       |              |                                                            |             |                                            |                  |                                  |        |        |                                           |                                                                  |                    |                      |                                    |              |                         |                                                                         |                   |              |                    |                                                  |                |                                        |                      |                                   |                                                          |                                |                         |                                         |                 |                                                                          |                       |                       |
| Eligibility                                                              | 100% of the land owners' agreement of 4 ha                              | Single household                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |             |                                            |                         |                                                              |                                                                                                   |                       |              |                                                            |             |                                            |                  |                                  |        |        |                                           |                                                                  |                    |                      |                                    |              |                         |                                                                         |                   |              |                    |                                                  |                |                                        |                      |                                   |                                                          |                                |                         |                                         |                 |                                                                          |                       |                       |
| Min. size of the house/apartment                                         | 35 sqm                                                                  | 35 sqm                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |             |                                            |                         |                                                              |                                                                                                   |                       |              |                                                            |             |                                            |                  |                                  |        |        |                                           |                                                                  |                    |                      |                                    |              |                         |                                                                         |                   |              |                    |                                                  |                |                                        |                      |                                   |                                                          |                                |                         |                                         |                 |                                                                          |                       |                       |
| Affordable housing price per square meter                                | 1.1 million MNT/m2 (additional green features financed by grant)        | 1.0 million MNT/m2                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |             |                                            |                         |                                                              |                                                                                                   |                       |              |                                                            |             |                                            |                  |                                  |        |        |                                           |                                                                  |                    |                      |                                    |              |                         |                                                                         |                   |              |                    |                                                  |                |                                        |                      |                                   |                                                          |                                |                         |                                         |                 |                                                                          |                       |                       |
| Apartment/house type                                                     | Townhouses and low-rise apartments                                      | Single house                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |             |                                            |                         |                                                              |                                                                                                   |                       |              |                                                            |             |                                            |                  |                                  |        |        |                                           |                                                                  |                    |                      |                                    |              |                         |                                                                         |                   |              |                    |                                                  |                |                                        |                      |                                   |                                                          |                                |                         |                                         |                 |                                                                          |                       |                       |
| Green building features                                                  | Energy efficiency (additional insulation), PV solar panels, greenhouses | Energy efficiency                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |             |                                            |                         |                                                              |                                                                                                   |                       |              |                                                            |             |                                            |                  |                                  |        |        |                                           |                                                                  |                    |                      |                                    |              |                         |                                                                         |                   |              |                    |                                                  |                |                                        |                      |                                   |                                                          |                                |                         |                                         |                 |                                                                          |                       |                       |
| Construction                                                             | Private developers                                                      | Small, medium construction companies/contractors                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |             |                                            |                         |                                                              |                                                                                                   |                       |              |                                                            |             |                                            |                  |                                  |        |        |                                           |                                                                  |                    |                      |                                    |              |                         |                                                                         |                   |              |                    |                                                  |                |                                        |                      |                                   |                                                          |                                |                         |                                         |                 |                                                                          |                       |                       |
| Infrastructure                                                           | Connected to main trunk infrastructure                                  | Individual solutions                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |             |                                            |                         |                                                              |                                                                                                   |                       |              |                                                            |             |                                            |                  |                                  |        |        |                                           |                                                                  |                    |                      |                                    |              |                         |                                                                         |                   |              |                    |                                                  |                |                                        |                      |                                   |                                                          |                                |                         |                                         |                 |                                                                          |                       |                       |
| Number of affordable housing unit                                        | 5,500 affordable housing units by the end of the project                | 5,590 affordable housing units                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |             |                                            |                         |                                                              |                                                                                                   |                       |              |                                                            |             |                                            |                  |                                  |        |        |                                           |                                                                  |                    |                      |                                    |              |                         |                                                                         |                   |              |                    |                                                  |                |                                        |                      |                                   |                                                          |                                |                         |                                         |                 |                                                                          |                       |                       |
| Development methodology                                                  | Land pooling and land swap to apartment                                 | No resettlement                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |             |                                            |                         |                                                              |                                                                                                   |                       |              |                                                            |             |                                            |                  |                                  |        |        |                                           |                                                                  |                    |                      |                                    |              |                         |                                                                         |                   |              |                    |                                                  |                |                                        |                      |                                   |                                                          |                                |                         |                                         |                 |                                                                          |                       |                       |
| Proposed AH financial products<br>Down payment<br>Tenor<br>Interest rate | 20%<br>30 years<br>8%                                                   | 30%<br>10 years<br>8%                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |             |                                            |                         |                                                              |                                                                                                   |                       |              |                                                            |             |                                            |                  |                                  |        |        |                                           |                                                                  |                    |                      |                                    |              |                         |                                                                         |                   |              |                    |                                                  |                |                                        |                      |                                   |                                                          |                                |                         |                                         |                 |                                                                          |                       |                       |

**B.6. Exit strategy and sustainability (max. 500 words, approximately 1 page)**

**Sustainability:** GCF investment is proposed not only for the initial capitalization and successful jumpstarting of MGFC, but more importantly to ensure long-term sustainability of the institution. Sustainability of the institution depends on the shareholding and governance structure, business model, and effectiveness and efficiency of its operations.

- Governance:** The shareholders meeting comprised of the common shareholders (GoM, private sector, GCF) is the principal governing body of the MGFC, while the Board and executive management team will be responsible for daily operations. Balanced representation of shareholders achieved through active involvement and monitoring of the GCF (via AE) investment. It is the

objective of the MGFC to apply best practices in terms of corporate governance and capacity building in Mongolia.

- *Business model:* The MGFC will be a green project financier that provides direct financing and on-lends through PFIs, which in turn provide loans to climate mitigation measures. As such, MGFC dilutes credit risks by shifting those towards PFIs.
- *Monitoring and Accountability:* Through the active involvement of the GoM and XacBank, the MGFC will ensure that policy and investment objectives are properly translated into investment, risk and monitoring frameworks. MGFC shall monitor the compliance of PFIs with the eligibility criteria and program requirement of MGFC and its obligations. A Reporting Framework matched to the Monitoring and Accountability Framework will be in place and transmitted to PFIs and other partners.

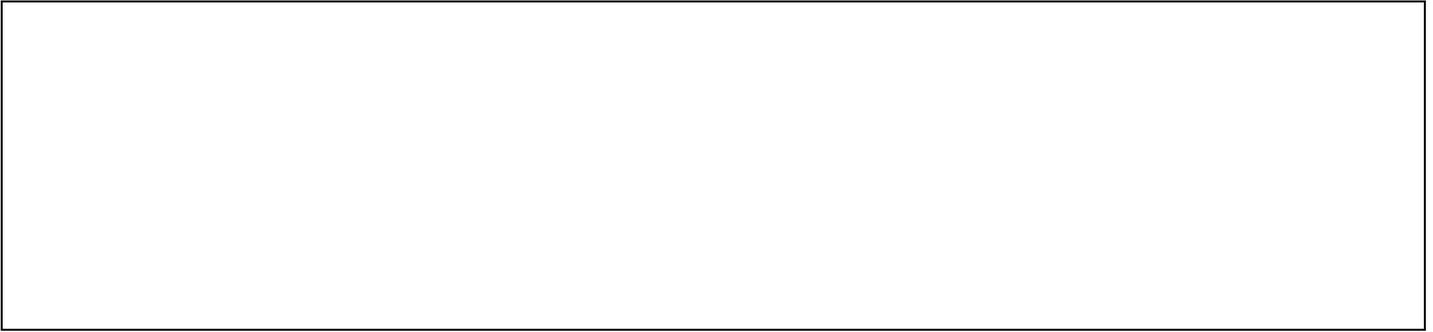
**Replicability:** The MGFC structure is designed following international best practices tested by the World Bank and IFC (WBG) in establishing development finance companies (DFCs) in more than 50 countries, as well as the standard pathway used to establish National Green Banks, as defined by the Green Bank Network.<sup>16</sup> This structure also incorporates detailed recommendations from the Green Investment Group, who helped establish the pioneering Green Investment Bank in the UK. The successful rollout of the MGFC could serve as a best practice for other developing countries facing similar challenges and constraints in uniting public, private and international efforts for mobilizing resources and promoting climate change adaptation and mitigation measures in a sustainable manner.

Common shares will have dividends of 1.25% p.a., paid on bi-annual basis. It should, however, be noted that the 33% common shares of the MGFC will be valued at least at 33% or USD 11.5 million of the valuation of the company, which books estimated assets of USD 34.7 million (despite conservative assumption of 31% depreciation of MNT) and performing ROE of at least 2.7%-11.2% p.a. depending on the interest rates of the exit period. The repayment and repurchase of equity investment will be in the same currency of the investment.

The MGFC programme contains a capacity building component aimed at ensuring strong governance, enhanced capacity in green finance, development and implementation of green mortgage and building standards, mainstreaming of gender and ESS measures, facilitation of the adoption of efficient technology, capacity building of MGFC staff, PFIs, and stakeholders, and increased public awareness of the benefits of switching to EE and low carbon measures. This will ensure the sustainable continuation of the relevant outcomes and activities of the program beyond the completion of GCF involvement.

**Exit Strategy:** At the end of the project, the GCF will be able to smoothly exit their investment into the MGFC by selling their equity to other interested parties (PFIs, IFIs, local investors, etc.). There are multiple ways that this can be structured, but we propose that the GCF selects an equity type that allows for an easy exit; for instance, equity put options or reverse convertible equity. The Shareholder's Agreement includes provisions for these options for subordinated debt and conditional trigger events (change of control, dilution from mission, etc.). These provisions ensure that GCF will have a clear exit opportunity on pre-agreed terms between investors. The GCF can ensure their influence over these events through veto rights on important decisions, to ensure that their investment is protected. There is also the possibility of an exit by partial IPO in the local stock exchange, in which case the GCF will be able to sell their shares directly to local investors.

<sup>16</sup> <https://greenbanknetwork.org>



| C. FINANCING INFORMATION                                                                    |                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |          |                  |                             |            |
|---------------------------------------------------------------------------------------------|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|------------------|-----------------------------|------------|
| C.1. Total financing                                                                        |                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |          |                  |                             |            |
| (a) Requested GCF funding<br>(i + ii + iii + iv + v + vi + vii)                             |                       | Total amount                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |          |                  | Currency                    |            |
|                                                                                             |                       | 26.654                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |          |                  | million USD (\$)            |            |
| GCF financial instrument                                                                    |                       | Amount                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Tenor    | Grace period     | Pricing <sup>17</sup>       |            |
| (i)                                                                                         | Senior loans          | 5.0                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 15 years | N/A              | N/A                         |            |
| (ii)                                                                                        | Subordinated loans    | 15                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 15 years | N/A              | N/A                         |            |
| (iii)                                                                                       | Equity                | 4.654                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 15 years | N/A              | N/A                         |            |
| (iv)                                                                                        | Guarantees            | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | N/A      | N/A              | N/A                         |            |
| (v)                                                                                         | Reimbursable grants   | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | N/A      | N/A              | N/A                         |            |
| (vi)                                                                                        | Grants                | 2.0                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | N/A      | N/A              | N/A                         |            |
| (vii)                                                                                       | Result-based payments | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | N/A      | N/A              | N/A                         |            |
| (b) Co-financing information                                                                |                       | Total amount                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |          |                  | Currency                    |            |
|                                                                                             |                       | 23.0                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |          |                  | million USD (\$)            |            |
| Name of institution                                                                         |                       | Financial instrument                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Amount   | Currency         | Tenor & grace <sup>18</sup> | Seniority  |
| Government of Mongolia                                                                      |                       | Equity                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 5.0      | million USD (\$) | N/A                         | pari passu |
| CGF LLC                                                                                     |                       | Equity                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 5.0      | million USD (\$) | N/A                         | pari passu |
| Entity owned by the Government of Mongolia                                                  |                       | Senior Loans                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 13.0     | million USD (\$) | N/A                         | senior     |
| (c) Total financing<br>(c) = (a)+(b)                                                        |                       | Amount                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |          |                  | Currency                    |            |
|                                                                                             |                       | 49.654                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |          |                  | million USD (\$)            |            |
| (d) Other financing arrangements and contributions (max. 250 words, approximately 0.5 page) |                       | <p>On behalf of GOM, the Minister of Finance and Minister of Environment and Tourism committed equity investment of at least USD 5.0 million.</p> <p>Financial institutions that expressed their interest to invest into MGFC are listed in Annex 13. Their commitment is expressed in a letter provided in Annex 13 of this proposal.</p> <p>6 of these banks have a small equity investment in CGF LLC, the parent company for MGFC NBFILLC. A letter of commitment from the Minister of Finance and Minister of Environment and Tourism of Mongolia and Mongolian Sustainable Finance Association, representing the GoM and signatory banks respectively, are attached in Annex 13 together with an MoU signed between the Ministry of Environment and Tourism of Mongolia, 11 banks, and the Mongolian Sustainable Finance Association.</p> <p>In addition to equity investment through MOF, the GoM supports the MGFC by providing concessional loan of USD 13.0 million as co-financing to GCF funds. The loans are intended to be facilitated through re-programming funds from MET to MGFC financing as policy support, with a commitment letter from the Minister of Environment and Tourism and Minister of Finance attached to the Funding Proposal.</p> |          |                  |                             |            |

<sup>17</sup> The 1.5% for the GCF's senior and subordinated loans includes a 0.5% service fee.

<sup>18</sup> For equity co-finance portions, tenor & grace reflect redemption period and redemption year.

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|--|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  | <p>The MGFC program funding proposal involves GCF equity investment, loan financing and grants.</p> <p>Per GCF's request, we have made the entire PPF amount (USD 345,897) reimbursable by decreasing the GCF contribution by the total PPF amount disbursed. Thus, the new GCF Equity contribution is USD 4,654,103, and the total project contribution is USD 26,654,103. This method of PPF repayment was suggested by GCF.</p> |
|--|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

## C.2. Financing by component

| Component                                                                                                                                | Output                                                                                                              | Indicative cost million USD (\$) | GCF financing           |                      | Co-financing            |                      |                                            |
|------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|----------------------------------|-------------------------|----------------------|-------------------------|----------------------|--------------------------------------------|
|                                                                                                                                          |                                                                                                                     |                                  | Amount million USD (\$) | Financial Instrument | Amount million USD (\$) | Financial Instrument | Name of Institutions                       |
| Component 1: Commercially viable energy efficiency, low carbon and affordable housing projects are identified, financed and implemented. | 1.1 Subordinated loan-Category-A financing                                                                          | 6.6                              | 3.0                     | Subordinated loans   | 2.6                     | Senior Loans         | Entity owned by the Government of Mongolia |
|                                                                                                                                          |                                                                                                                     |                                  | 1.0                     | Senior Loans         |                         |                      |                                            |
|                                                                                                                                          | 1.1 Subordinated loan-Category-B financing                                                                          | 19.8                             | 9.0                     | Subordinated loans   | 7.8                     | Senior Loans         | Entity owned by the Government of Mongolia |
|                                                                                                                                          |                                                                                                                     |                                  | 3.0                     | Senior Loans         |                         |                      |                                            |
|                                                                                                                                          | 1.1 Subordinated loan-Category-C financing                                                                          | 6.6                              | 3.0                     | Subordinated loans   | 2.6                     | Senior Loans         | Entity owned by the Government of Mongolia |
|                                                                                                                                          |                                                                                                                     |                                  | 1.0                     | Senior Loans         |                         |                      |                                            |
| 1.1 Selection of PFIs                                                                                                                    | 0.010                                                                                                               | 0.010                            | Grants                  | N/A                  | N/A                     | N/A                  |                                            |
| 1.2 Evaluation and monitoring of financing implemented                                                                                   | 0.020                                                                                                               | 0.020                            | Grants                  | N/A                  | N/A                     | N/A                  |                                            |
| Component 2: The capacity of MGFC and the enabling environment for green finance are strengthened                                        | 2.1: MGFC business operations established in compliance with international standards and internal capacity is built | 14.654                           | 4.654                   | Equity               | 10.0                    | Equity               | Government of Mongolia and CGF LLC         |
|                                                                                                                                          |                                                                                                                     | 1.3245                           | 1.3245                  | Grants               | N/A                     | N/A                  | N/A                                        |
|                                                                                                                                          | Output 2.2: Increased green finance capacity built among PFIs,                                                      | 0.4739                           | 0.4739                  | Grants               | N/A                     | N/A                  | N/A                                        |

|                                    |                                                  |        |        |      |     |     |  |
|------------------------------------|--------------------------------------------------|--------|--------|------|-----|-----|--|
|                                    | project developers, households and policy makers |        |        |      |     |     |  |
| <b>Project Management Costs</b>    | 0.1716                                           | 0.1716 | Grants | N/A  | N/A | N/A |  |
| <b>Indicative total cost (USD)</b> | 49.654                                           | 26.654 |        | 23.0 |     |     |  |

**C.3 Capacity building and technology development/transfer (max. 250 words, approximately 0.5 page)**

C.3.1 Does GCF funding finance capacity building activities? Yes  No

C.3.2. Does GCF funding finance technology development/transfer? Yes  No

A grant of USD 2.0 million is proposed for capacity building of the MGFC and PFIs, and the creation of an enabling environment for green finance. The grant funds are used to ensure that (i) MGFC's internal capacity is built to be able to sustainably operate after an initial period of 3 years; (ii) the environment and technology enabling the activities of MGFC and the development of green finance is established; XacBank will execute this component with participation of MSFA in the Project Management Unit. .

MGFC will engage in the domestic financial market, skills and knowledge on low-carbon, resource-efficient technologies will be transferred to the domestic financial industry. Furthermore, it will offer the domestic financial industry an opportunity to retain an appropriate proportion of risk and an equivalent amount of premium within the country. The GCF funding will serve as an accelerator for sustainable finance technology development by driving banks to (i) automate their environmental and social risk assessment checklist tool to improve the usability, quality, and monitoring of the current risk assessment process (ii) issuing green statistics, and (iii) a common tool for MRV and CO<sub>2</sub> emission reduction calculations. Concerning technology development, 60% of MGFC financing is allocated for Category B: Energy efficiency improvement measures for business entities. Within the Law on Energy Conservation of Mongolia, at least 229 designated entities which are obliged to undertake energy efficiency improvement measures are potentially expected to develop and transfer energy efficient technology in Mongolia.

## D. EXPECTED PERFORMANCE AGAINST INVESTMENT CRITERIA

This section refers to the performance of the project/programme against the investment criteria as set out in the GCF's [Initial Investment Framework](#).

### D.1. Impact potential (max. 500 words, approximately 1 page)

#### Summary of impact potential

|                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Category A: Thermal insulation of existing houses</b>                        | <p><u>For initial year:</u></p> <ul style="list-style-type: none"> <li>- Planned investment: USD 12.7 million</li> <li>- Number of houses for thermal insulation: 5,230 (32m<sup>2</sup>)</li> <li>- Number of direct beneficiaries: 18,828 (3.6 persons per household)</li> <li>- Direct reduction of greenhouse gas emission: 21,685 tCO<sub>2</sub>eq</li> </ul> <p><u>Cumulative for 15 years:</u></p> <ul style="list-style-type: none"> <li>- Planned investment: USD 52.8 million</li> <li>- Number of houses for thermal insulation: 21,738 (32m<sup>2</sup>)</li> <li>- Number of direct beneficiaries: 78,256 (3.6 persons per household)</li> <li>- Direct reduction of greenhouse gas emission: 695,979 tCO<sub>2</sub>eq</li> </ul> |
| <b>Category B: Energy efficiency improvement measures for business entities</b> | <p><u>For initial year:</u></p> <ul style="list-style-type: none"> <li>- Planned investment: USD 38.1 million</li> <li>- Number of entities: approx. 76</li> <li>- Direct reduction of greenhouse gas emission: 132,802 tCO<sub>2</sub>e</li> </ul> <p><u>Cumulative for 15 years:</u></p> <ul style="list-style-type: none"> <li>- Planned investment: USD 109.8 million</li> <li>- Number of entities: approx. 220</li> <li>- Direct reduction of greenhouse gas emission: 2,983,501tCO<sub>2</sub>eq</li> </ul>                                                                                                                                                                                                                               |
| <b>Category C: Mortgages for green affordable houses in ger areas</b>           | <p><u>For initial year:</u></p> <ul style="list-style-type: none"> <li>- Planned investment: USD 12.7 million</li> <li>- Number of green affordable houses: 871 (35m<sup>2</sup>)</li> <li>- Number of direct beneficiaries: 3,135 (3.6 persons per household)</li> <li>- Direct reduction of greenhouse gas emission: 3,026 tCO<sub>2</sub>eq</li> </ul> <p><u>Cumulative for 15 years:</u></p> <ul style="list-style-type: none"> <li>- Planned investment: USD 32.6 million</li> <li>- Number of green affordable houses: 2,232</li> <li>- Number of direct beneficiaries: 8,035 (3.6 persons per household)</li> <li>- Direct reduction of greenhouse gas emission: 75,287 tCO<sub>2</sub>eq</li> </ul>                                      |

#### Other relevant indicators:

- Number of houses complying with energy efficiency norms either through thermal insulation of existing houses or construction of new houses instead of ger will be 6,101 for the initial year and 23,970 for project lifecycle period.
- Green affordable houses and thermal insulation of existing houses will reduce consumption of coal by 17,072 tons for the initial year and by 532,849 tons for 15 years' project lifetime.
- PPM10 in UB air will be reduced by 20 tons in first year and by 623 tons for the project lifecycle period.<sup>19</sup>
- PPM2.5 in UB air will be reduced by 14 tons in first year and by 434 tons for the project lifecycle period.
- Black Carbon emission will be reduced by 0.14 tons in first year and by 4.26 tons for the project lifecycle period.<sup>20</sup>

<sup>19</sup> European Environment Agency, EMEP/EEA (2016) Tier 1 emission factors for combustion are used. 79kg/TJ for PPM10 and 55kg/TJ for PPM2.5.

<sup>20</sup> Emission factor for black carbon is 0.54kg/TJ. Refer to LEAP Asiana 4.1.0 (derived from Bond et al 2004; Journal of geophysical research, Vol. 109 "A technology-based global inventory of black and organic carbon emissions from

- Private sector investment in green affordable housing.
- Creation of a model for better insulated houses.
- Economic benefits due to energy efficiency measures (EEMs) in individual organizations; extension of lifetime of equipment; improvement of environment and safety conditions; Replication impact to spread EEMs in other organizations with similar activities.

The above-summarized impacts are derived from calculations provided in Annex 3 ('GHG-TI', 'GHG-EE', 'GHG Reduction' and 'BC,PPM,MWh saving' tabs).

**D.2. Paradigm shift potential (max. 500 words, approximately 1 page)**

MGFC contributes to the paradigm shift towards low-emission and climate-resilient development pathways through the mainstreaming and scaling up of green finance in the banking sector, using a unique PPP model. MGFC will enable the transfer of low carbon technologies through affordable financing, innovative lending plans, and increased public awareness for end-users, including households and businesses.

**Potential for scaling up and replication**

In the initial stages, the MGFC will focus on its role as a “wholesale financier,” helping to inject much needed capital and technical support to build up Mongolian PFI’s green investment strategies. This funding proposal focuses on the MGFC’s initial three product categories; however, the MGFC’s structure is designed to grow and scale over time, taking on new opportunities outside those presented in this initial proposal. The Green Investment Group has recommended this trajectory, as it mirrors that of the UK’s Green Investment Bank, which focused initially on a small set of proven project ideas to prove efficacy before moving into new finance opportunities. While the initial goal of the MGFC will be to mainstream green finance in Mongolia, there are clear opportunities for the MGFC to expand its role and pioneer new green products in the future. The transformational mission of the MGFC will occur through the following phases of growth:

**Table D.2.1. Phases of MGFC Development**

|                                    | Objective                                                                                                                                                                                                                                                                                   | Investments                                |
|------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|
| <b>Phase 1:<br/>Capitalization</b> | <ul style="list-style-type: none"> <li>• Build MGFC and PFI capacity to define, fund, execute, and monitor an initial green investment strategy.</li> <li>• Implement the initial pipeline of three projects detailed in this proposal.</li> </ul>                                          | USD 50 million<br>(initial capitalization) |
| <b>Phase 2:<br/>Expansion</b>      | <ul style="list-style-type: none"> <li>• Identify additional low hanging fruit for green financing.</li> <li>• Design and disseminate new project ideas throughout the industry.</li> <li>• Attract new institutional investors and funding streams for Mongolian green finance.</li> </ul> | USD 125 million*                           |
| <b>Phase 3:<br/>Advancement</b>    | <ul style="list-style-type: none"> <li>• Identify projects that are unlikely to be taken up by the current market for various reasons (risk appetite, capital constraints, etc.).</li> <li>• Remove market barriers facing these projects, or implement the projects directly.</li> </ul>   | USD 500 million*                           |

\* Reflects initial analyses of market value in expansion sectors, to be refined once MGFC is established.

combustion" Table 5, assuming 95%:5% ratio of captured versus uncaptured technology as for India in the mid-1990s (Bond et al, 2004: Table 8).

To support Phases 2 and 3 of the MGFC's development, Activity 2.2.4 focuses on identifying future opportunities for green financing for the MGFC and PFIs. Future project pipeline ideas that have already been researched include:

- Green residential buildings
  - *Project:* Incentivizing new residential buildings to be energy and water efficient
  - *Market:* 14,000 new apartment units annually until 2030, maximum USD 5 billion
  - *Benefits:* Prevent GHG emissions from all types of new buildings
  - *Product:* Providing mortgage loans to individuals interested in buying new green apartments, with 20% downpayment, 8% interest rate, 20 years tenor. Green business loans for construction companies can also be explored.
- Organic waste recycling and treatment
  - *Project:* Recovering organic food/garden waste and using it to produce compost
  - *Market:* 650 food-related businesses, USD 0.35-1.3 million
  - *Benefits:* Reduces methane from waste decomposing, increases effectiveness of recycling programs, and reduces waste going to landfill
  - *Product:* Providing loans to businesses to purchase food recycling appliance – 20% downpayment, 12% APR, 24 month tenor
- Greening the Textile Market
  - *Project:* Incentivizing green practices within the growing Mongolian textile industry
  - *Market:* MNT 295 billion, over USD 100 million
  - *Benefits:* Reduce energy and water usage in the textile industry
  - Many products can be tailored for green financing of the textile value chain, including for herders and herder cooperatives for sustainable pasture management and livestock reduction, businesses for energy efficiency and hazardous chemical management, certification, and carbon neutral packaging. Further studies need to be conducted.

In addition, there are many sectors and opportunities for green finance that need additional research under Activity 2.2.4, including:

- Financing large-scale solar and wind projects to build renewable energy generation and capacity
  - Initiatives including the “Asian Super Grid” and “Northeast Asia Power System Interconnection” could provide high international demand for Mongolian renewable energy
  - USD 12 billion capital necessary to build out 5GW generation and transmission capacity
- Additional EE products in the residential and business sector:
  - Retrofitting existing apartment buildings with better insulation and alternative heating sources
    - Estimated market size: USD 108 million (Annex 2)
  - Installing heat metering technologies to track and adjust energy usage
  - Incentivizing the usage of high-efficiency technology and materials in new construction
- Green opportunities in the agricultural sector, which is the second highest GHG contributor.

The MGFC will leverage GCF resources by a factor of 6:5, establishing the first public-private climate finance vehicle in the region. MGFC's scope of operation can be scaled up during intervention by increasing the number and geography of designated entities (DEs) taking on energy conservation measures beyond the Law on Energy Conservation's initial 229 identified DEs. Audits conducted by PwC at just 15 DEs revealed investment needs of USD 58.5 million. Further, the need for green affordable housing and heat insulation and refurbishment exists across the country, particularly in secondary cities such as Darkhan and the aimag/provincial centers.

The proposed structure integrates best practices tested by the World Bank and IFC, GGGI's National Financing Vehicles experience, and Green Investment Group's expertise.<sup>21</sup> The successful rollout of the MGFC may serve as a best practice to be replicated in other developing countries with a similar institutional, environmental, financial and technical context.

#### **Potential for knowledge sharing and learning**

Tangible outputs such as affordable green building standards and blueprints and energy efficiency auditing frameworks can be shared regionally and globally. This would build on recognition the Mongolian Sustainable Finance Initiative (MSFI) has already achieved internationally and the movements to replicate MSFI (e.g., in Cambodia, Kyrgyzstan and the Philippines). Knowledge sharing on the unique public-private partnership with multiple stakeholders (with and without financial commitment) will be a focus and the proposal contains specific activities for knowledge creation and transfer of know-how to end-users (Outputs 2.1 and 2.2).

#### **Contribution to creation of an enabling environment**

Key activities include the mobilization of climate finance at the benefit of NDC implementation, human and institutional capacity building, and the improvement of coordination and communication among stakeholders. Specifically, MGFC will:

- Facilitate dialogue and coordination amongst public and private stakeholders towards implementation of Mongolia's NDCs and wider green development agenda
- Support creation of an enabling legal and policy framework and their implementation and enforcement (e.g., for standards for green financial products)
- Provide capacity building and strengthening to related stakeholders, such as enhancing PFI staff's understanding of the assessment of energy efficiency to change the risk perception, and making end-users less exposed to energy expenditures.

#### **Contribution to the regulatory framework and policies**

The MGFC will help strengthen the national regulatory and policy framework through Output 2.2, with development of green finance standards and the drafting of a law on NBFIs doing wholesale lending to alleviate the single borrower limit stated in the NBFA law of Mongolia. Synergies with existing technical assistance will be sought (e.g. ADB AHURP on green building standards, noted further in B.1).

### **D.3. Sustainable development (max. 500 words, approximately 1 page)**

**Economic benefits** include:

- **Knowledge and technology transfer** – Since MGFC will engage the domestic financial market, skills and knowledge on low-carbon, resource-efficient technologies will be transferred to the domestic financial industry.
- **Employment creation** – At least 1,470 green job will be created, including 40% for women both through temporary construction and permanent jobs through the green affordable housing program.
- **Fiscal consolidation** – By mobilizing private sector green investment, MGFC will reduce pressure on the government budget, while increasing the market for green technologies. It will contribute at least USD 2.1 million to the GoM over its lifespan.
- **Energy security** – High energy expenditures due to cold climate and energy intensive-heating have a proportionally high impact on poor households. Provision of lower-cost, clean and affordable housing and energy-efficient products will enable women and men to reduce energy expenditures and increase economic participation in other sectors.

<sup>21</sup> [http://report.gggi.org/2016/wp-content/uploads/2017/06/National\\_financing\\_vehicles.pdf](http://report.gggi.org/2016/wp-content/uploads/2017/06/National_financing_vehicles.pdf)

- **Increased participation of women in economic activities** – As the share of female-owned businesses already comprises 60% of micro-scale, family and sole-entrepreneur-owned businesses, increasing opportunities for these women-run SMEs to benefit from energy-efficient products will strengthen to the strengthening the women-led SMEs – a crucial part of achieving sustainable growth in Mongolia. This is specifically relevant to MGFC’s Category B financing.

**Social benefits** include:

- **Gender equality and women’s empowerment** are critical to enabling poverty reduction, increased social inclusion and well-being for all. The MGFC will be used as a tool to **mainstream gender in the financial sector** and will contribute to drive gender equality through promoting women entrepreneurship as one its key investment criteria. Project developers will be expected to demonstrate that they incorporate gender equality concerns in the project design and ensure that these aspects are maintained/improved during operation.
- **Public Health benefits** - Ulaanbaatar is notorious for its bad air quality, especially in winter when coal is used for heating. Thermal insulation of approximately 23,000 houses, and the availability of green and affordable housing as well as energy efficient technologies for industries and households reduces health and safety hazards by replacing fossil fuels and can therefore contribute to an improvement of respiratory health in local communities. The same health benefits will be realized in rural areas as households opt for more affordable energy-efficient heating solutions and decrease their reliance on fossil fuels.
- **Increased access to affordable cleaner energy** will provide direct benefits to under-served, low-income consumers. The proportion of rural and ger areahousehold incomes spent on fuel expenditures can be reduced. This is caused by low thermal efficiency requiring more units of fuel per square meter) and an inability to bulk purchase coal (with resulting higher unit costs). A greater number of low-income residents can afford to maintain comfortable living temperatures reducing adverse effects on health and well-being.

**Environmental benefits** include:

- Reduction in **GHG emissions** that lead to global climate change as described in other areas of this proposal.
- Reduction in **local air pollutants** such as particulate matter, SO<sub>2</sub> and nitrogen oxides. The heat insulation of 21,738 houses will considerably reduce particulate matter emission in Ulaanbaatar by 1.5 percent.<sup>22</sup> According to JICA, the average daily PM2.5 concentration in Ulaanbaatar was 63-106 and maximum value was 285 to 466.<sup>23</sup> This is over seven times higher than World Health Organization (WHO) international guidelines and over three times higher than annual average Mongolian national standard.
- **Other environmental benefits** can be expected from green housing, such as a reduction of water use, building materials use and the generation of waste.

<sup>22</sup> Based on the assumed rate of reduced consumption of coal for the first year of the project, divided by total consumption of coal in UB, which is estimated to be 838,080 tons per year by multiplying number of households in ger area 216,000 with average consumption of coal of per household 3.88 tons.

<sup>23</sup> Capacity Development Project for Air Pollution Control in Ulaanbaatar City Phase 2 in Mongolia, Final Report, JICA, June 2017, Table 2.2-18

#### D.4. Needs of recipient (max. 500 words, approximately 1 page)

##### **Vulnerability to climate change**

Mongolia's unique climate and geography lends to diversity in extreme events, such as *dzuds*, dust storms, flash floods, and steppe and forest fires. The number of extreme weather events has doubled in the last 20 years and is expected to increase.<sup>24</sup> This, along with other drivers, contributed to Mongolia's ranking on the 2014 climate risk index as the 8<sup>th</sup> most vulnerable country to extreme weather impacts<sup>25</sup>, posing challenges to rural households with traditional livelihoods and driving haphazard settlement in peri-urban areas. Such areas lack access to basic services, are vulnerable to climate-borne flash floods, and rely on raw coal for heat, driving severe air pollution with grave environmental and public health implications.

##### **Economic and social development level of the country and the affected population**

The World Bank classifies Mongolia as a lower-middle income country, with a GNI per capita at USD 3,590.<sup>26</sup> Real GDP growth forecasts increased from 5.0% to 6.3% from 2018 to 2019, reflecting a positive outlook on the Mongolian coal industry and higher-than-expected 1H2018 growth performance. Median household income in Ulaanbaatar's ger areas is estimated at MNT 550,000-620,000 (USD 227-255)<sup>27</sup> per month and the average income in rural areas is MNT 700,000 (USD 288) per month, indicating a limited ability to invest in improvements of energy efficiency of housing and/or living conditions.

##### **Absence of alternative sources of financing**

*Public financing:* Mongolia's near financial crisis in 2016 led the GoM to receive a combination of USD 5.5 billion in official sector support, including USD 420 million from IMF's EFF.<sup>28</sup> The program is showing positive results with an increase in foreign exchange reserves, a reduction in government debt in percentage to GDP, and growing domestic demand. Nevertheless, the growth outlook is subject a fall in external demand for commodities and higher fuel prices. In light of these risks and still limited buffers, fiscal and monetary policies will remain prudent.

*Private sector financing:* The banking sector remains the dominant player in the financial system. Non-banking financial institutions, such as insurance companies, micro-finance institutions and savings and credit cooperatives, remain small in terms of asset size. There is no corporate bond market. The equity market is more of a trading venue for shares and does not play a significant financing role. The market lacks long-term financing sources without substantial institutional investors to invest in long-term financial products.<sup>29</sup> The cost of capital is the private sector's most significant constraint: the loan tenors average at 28.5 months to private sector<sup>30</sup> and the average deposit and lending rates are at 13.0% and 18.8% p.a. respectively.<sup>31</sup>

##### **Need for strengthening institutions and implementation capacity**

Effective coordination for NDC implementation is a significant challenge. Although NDC are cross-sectoral, MET bears responsibility for compliance, while actual implementation often falls under line Ministries and government institutions. The MET, although a core Ministry of the GoM, has the smallest budget allocation

<sup>24</sup> Climate change in Mongolia, Outputs from GCM, Ministry of Environment Japan

<sup>25</sup> Germanwatch. 2014. Global Climate Risk Index 2014: Who Suffers Most from Extreme Weather Events? Weather Related Loss Events in 2012 and 1993 to 2012.

<sup>26</sup> World Bank data, 2017

<sup>27</sup> At exchange rate 2,427.13MNT/USD of December 2017

<sup>28</sup> Mongolia – First and second reviews under the Extended Fund Facility Arrangement, IMF, Dec 15, 2017

<sup>29</sup> Strategy for Mongolia, EBRD, 2017

<sup>30</sup> 33 months for banking sector, 28.5 months for private sector, as of December 2017, Bank of Mongolia  
<https://www.mongolbank.mn/documents/statistic/loanbank/2017/m12.pdf>

<sup>31</sup> Monetary review, Dec 2017, BoM, <https://www.mongolbank.mn/documents/statistic/monetaryreview/2017/12.pdf>

and has limited influence over investment decisions of other government bodies. This, coupled with the constrained human resource capacity, makes a strong case of a professionally managed financing vehicle driven by sound climate policy implementation. MGFC's ambition is thus to become the primary financing vehicle and policy instrument of the GoM to pursue its climate change objectives.

#### **D.5. Country ownership (max. 500 words, approximately 1 page)**

##### **Existing national climate strategy and alignment with Mongolia's national climate priorities**

The program is in line with several policy initiatives including Mongolia's Nationally Determined Contribution (NDC) and NAMAs, of which MGFC will help achieve:

- A 22.7% reduction in national GHG emissions;
- Increasing the share of renewable electricity capacity to 30%;
- Reducing building heat loss by 20% by 2020 and by 40% by 2030; and
- Implementing advanced technology in energy production via provision of affordable financing.

The MGFC is aligned with Mongolia's Vision 2050, the Mongolian government's 2016 Green Development Policy, the National Action Programme on Climate Change (NAPCC), the Law on Energy Conservation (LEC), and the Action Plan for the implementation of National Green Development Policy, which includes the specific objective of establishing the MGFC as a public-private partnership institution.<sup>32</sup> The MGFC is discussed in detail in Mongolia's 2018 GCF Country Programme.

##### **Capacity of Accredited Entities or Executing Entities to deliver**

**Accredited entity:** XacBank is the AE and Executing Entity (EE) for several GCF-funded projects in Mongolia. XacBank will represent GCF at the MGFC Board and ensure funds are properly managed and effectively channeled. XacBank's experience of climate financing will be broadly transferred in Mongolia through PFIs, using the technical assistance component is planned with XacBank as an executing entity for capacity building of MGFC and PFIs.

**Executing Entity for Component 1 (MGFC):** The MGFC is governed by its Board and advised by the AC, all consisting of seasoned professionals with experience in sustainable finance and/or banking sector. The Executive Management Team (EMT), which is responsible for day to day operations, is led by the former CEO of Tenger Financial Group and XacBank, the first Mongolian accredited entity to GCF. The Executive Management Team is appointed by the MGFC Board in consultation with the MGFC Shareholders and reports to the MGFC Board. Detailed CVs of the Board and AC members, and EMT are attached. In the beginning of the project, the international advisor shall help to build technical green finance capacity of the organization and instill in MGFC the systems and capacities required for sustainable operations of the company to the level of international standards. MET and MOF shall ensure MGFC's activities are supportive to national efforts. International institutions such as GGGI will provide technical and operational support. MBA and MSFA shall contribute towards effective coordination and collaboration of public and private sectors.

Wholesale lending to PFIs will be led by MGFC's Executive team and Board, and guided by MGFC's policies and procedures that were developed in accordance with GCF and XacBank's policies as well as relevant international best practice standards such as the IFC Performance Standards, LMA Green Loan Principles, and governance principles. These policies have outlined clear rules and processes that will need to be followed in the due diligence, contracting and monitoring of PFIs. In addition, an international advisor will be

<sup>32</sup> Section 3.7, Action plan, Implementation of the National Green Policy, Government resolution#34, 2016, <http://www.legalinfo.mn/annex/details/7279?lawid=11886>

appointed to support MGFC in its initial phases to set up sound and internationally aligned green investment capacity and management systems. MGFC's compliance with its policies and procedures will be monitored by the GCF-AE and the Board. The MGFC reports to the GCF-AE and Board on a quarterly basis, ensuring compliance with national and international best practices.

The Green Impact Framework is the main guiding document for MGFC and its PFIs to identify and provide funding for projects in the three initial sub-sectors, and conduct pre- and post-evaluations of the associated green impact. MGFC ensures all projects financed through MGFC's funds meets its intended outcomes through a double layer supervision at both the PFI- and project-level:

- PFI level: MGFC performs a comprehensive due diligence on PFI's financial, green impact, ESG and gender capacity, management system and track record before making a decision to enter into participation and on-lending agreements. Where gaps are identified, MGFC will require PFIs to comply with an Action Plan, developed with support of MGFC, that focuses on improving the capacity of PFIs to provide lending to green projects. The timely and quality implementation of the Action Plan will be regularly monitored by MGFC according to rules and requirements specified in its policies and procedures. PFIs will report to MGFC on a quarterly basis.
- Project level: PFIs are mandated to provide regular monitoring of the financial, green impact and ESG performance of their financed projects. In addition, staff under the MGFC Green Investment Department will conduct project level post-loan energy audits and verifications to ensure projects funded through PFIs are implemented in compliance with MGFC's pre-agreed eligibility criteria. An external review by an independent evaluator is also included in the M&E plan, as agreed with GCF.

**Executing entity for Component 2 (XacBank):** As described in Section B.3, XacBank will be the executing entity of Component 2, whilst MGFC will be the executing entity of Component 1. XacBank is a flagship institution in promoting sustainable finance under its triple bottom line mission, People, Planet, Profit not only in Mongolia but in region. XacBank established its Eco department in 2009, first of its kind in Mongolian financial sector. XacBank has been successfully implementing energy efficient projects funded by FMO, Global Climate Partnership Fund, EBRD and IFC among others. XacBank has unique experience investing in MicroEnergy Credits (MEC), an international carbon credit trader in private and public markets. XacBank-AE owns about 5% of preferential shares of MEC since 2013. MEC is an international JV based in Seattle, USA.

XacBank became one of the first 9 founding members of the Global Alliance of Banking on Values (GABV), an international movement launched in 2009 to change finance to finance change. GABV now comprises 63 financial institutions and 16 strategic partners worldwide, collectively serving more than 70 million customers, and holding over \$210 billion USD of combined assets. In 2019 XacBank joined the Partnership for Carbon Accounting Financials ("PCAF"), the GABV-led partnership to standardize carbon accounting for the financial sector, to assess and disclose the GHG emissions of their loans and investments. It's the largest such commitment ever made in the financial sector.

XacBank is the first private sector institution in the region accredited by the GCF in 2016.

The AE has an extensive track record of establishing financial entities not only in Mongolia, but cross-border. XacBank's parent company TenGer Financial Group (TFG), now 80% owned by international investors, such as IFC, EBRD, Orix International, National Bank of Canada, was established in 2001 to manage its subsidiaries XacBank, XacLeasing, TenGer Insurance, TenGer Capital, and Glacier Asset investments. TFG has international experience in equity investment and management in Molbulak in Kyrgyz republic (30%

stake) in 2009, and greenfield financial company, Tianrong credit in Urumqi, Xingjian, China (51% stake) in 2012. TFG successfully exited the Tianrong credit in 2020.

AE also investor in Mongolian Mortgage Corporation, Banking and Finance Academy, CIB etc. AE is one of the long-term PFIs in Japanese funded TSL over the last 15 years.

**PFIs:** Mongolian banks have voluntarily embarked on a journey to define and operationalize sustainable finance principles. To date, Mongolian Sustainable Finance Initiative (MSFI) principles have been adopted by all banks; environmental and social management systems have been established and environmental and social risk assessments in bank lending and investment operations have been mainstreamed. In addition, MSFA, together with its member banks, has been implementing several green loan pilot projects (e.g. EE housing mortgage pilot with GIZ) that are aimed to help build initial capacity of PFIs to successfully deliver MGFC products and goals. According to a recent survey conducted by MSFA, currently 9 banks are offering 44 green loan products using either their own funds or through the support of international organizations. A more detailed assessment of the current status of sustainable finance implementation in the banking sector is enclosed as Annex 6.3.

#### **Role of National Designated Authority and Engagement with civil society organizations and other relevant stakeholders, including indigenous peoples, women and other vulnerable groups**

The MBA, MET, the Central Bank of Mongolia, FRC, IFC and the FMO have been working to introduce green lending practices since the MBA's initiation of the MSFI in 2013. In September 2017, key MGFC stakeholders, including MoF, MET, MBA and GGGI, signed a MOU related to MGFC. Following the MOU, the MGFC Steering committee was established including MET (NDA), MoF, MBA, GGGI and Dr. Batjargal Zamba (the GCF NDA) as an independent member. The Steering Committee was then officially established by Joint Resolution A343/166 of the Minister of Environment and Tourism and the Minister of Finance, dated July 10 2019. The Steering Committee is now comprised of MSFA, MBA, MOF, MET, NDA and XacBank, with GGGI as a nonvoting member. Throughout MGFC preparation various stakeholders have been engaged in stakeholder consultation, particularly in workshops organized under the Readiness Programme of the GCF which focused on actions to setup and operationalize the MGFC and broader engagement with public and private sector representatives, international development organizations, industry associations and civil society organizations, NGOs, and green banking best practices experts such as the Green Investment Group (via PPF work). As per GIG's recommendations, an MoU was signed in April 2020 between the Ministry of Environment and Tourism, Mongolian Sustainable Finance Association, and 11 banks. Another action per GIG recommendation was to establish an Establishment team, which was appointed by the MGFC Steering Committee. Additionally, the MGFC was established as a legal entity, its Board, Advisory Committee and EMT are formed, and key operating policies and procedures are approved, based on iTAP's suggestions.

#### **D.6. Efficiency and effectiveness (max. 500 words, approximately 1 page)**

The sustainability of the institution is ensured through a business-oriented model. Hence, the cost of GCF investment directly affects the profitability and therefore sustainability of the MGFC as well as the affordability of its financial instruments. The terms of MGFC-financed loans are outlined in Annex 3. The need for GCF concessionality is discussed in Section B.5. GCF funding will not crowd out private and public investment in low-carbon and resource efficient projects; on the contrary, it mobilizes private and public resources, demonstrates the viability of these type of investments, therefore reducing barriers and builds capacity towards the replication of investments. The effectiveness and efficiency of the proposed activities are characterized by the following performance indicators:

- Financing approximately USD 136.6 million of own funds, leverage financing of USD 58.5 million through PFI 30% co-financing, and USD 83.6 million as 30% down-payments from end-users. The GCF investment will result in at least 2 times due to revolving nature of the MGFC capitalization.

- Significant potential for mobilization of additional domestic and international resources is not reflected in the above estimates. A successful operationalization of the MGFC may also be replicated in other developing countries facing similar challenges. The GoM committed to channel green and affordable housing programme proceeds estimated currently at USD 13.0 million.

An integrated financial model including scenario analysis is presented in Annex 3. This model has been developed to demonstrate the financial sustainability of the MGFC operations with the GCF investments and the level of concessionality required. Given MGFC's nature of financial institution the financial analysis focused on operational profitability, ability to redeem GCF investment and accumulation of revolving fund for future operations. Additional narrative on such financial efficiency is demonstrated in two sets of documents: (i) a set of spreadsheets representing the financial analysis model (Annex 3.1); and (ii) narrative and rationale for the financial model, contained in Annex 3.2.

### Application of best practices

MGFC proposes three energy efficient products for housing and businesses based on achievements and best practices of energy efficiency projects and studies conducted by various international and local organizations such as World Bank Clean Air Project, International Institute for Energy Conservation, Energy Regulation Committee, Energy efficiency projects of GGGI and GIZ, and others.

**Table D.6.2. Summary of application of best practices**

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Category A: Thermal insulation of existing houses</b></p> <ul style="list-style-type: none"> <li>• Pilot projects for improvement of thermal insulation of existing public and residential buildings have been implemented by development organizations such as GIZ, GGGI, Czech Caritas, GERES and WB Clean Air project in recent years. The Heat Campaign of WB Clean Air Project is the most relevant to small houses in Ger area and has covered over 200 houses and taken as main reference for this study.</li> <li>• The application of the demonstrated local best practices for retrofitting and insulation of wall, roof and foundation along with requirements of Mongolian building code for thermal efficiency make the thermal insulation of existing houses highly efficient measure to reduce heating energy consumption by 48%-53%.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <p><b>Category B: Energy efficiency improvement measures for business entities</b></p> <ul style="list-style-type: none"> <li>• The International Institute for Energy Conservation has recommended number of international best practices to be transferred, such as making the mining industry more efficient in a long term through adoption of energy efficient drivers, pumps, compressors, automation and other energy saving technologies. By 2020, 42% less electricity can be achieved for copper mining, 15% less electricity for coal mining, and 27% less electricity for gold mining.<sup>33</sup></li> <li>• Particular energy efficient measures based on international best practice were recommended by detailed energy audit at 15 selected entities by GGGI and PWC.</li> <li>• For the selected energy efficiency measures within this Funding Proposal, the industrial best practices of energy efficiency are being offered including but not limited to high efficient electric equipment, VFDs, LED lighting, reduction of heat loss, improvement of heat boilers and distribution transformers.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <p><b>Category C: Mortgages for green affordable housing</b></p> <p>Green affordable housing and financial solutions will be based on the best practices considering climate change, environment, social and economic criteria. Mongolia is unique in terms of climate conditions, land ownership rights and culture of nomadic lifestyle. Green affordable housing will meet the uniqueness of local conditions as well as people's tendency to remain and improve existing living conditions in ger areas instead of moving to newly built high rise apartments in the city. The green affordable housing solutions will be the demonstration project which apply the following best practices:</p> <ul style="list-style-type: none"> <li>• <i>Energy efficiency:</i> Energy efficient measures such as energy efficient housing design which will lead later to passive housing design, issuance of energy passport for houses, application of MRV system, green building rating system and clean technology heating solutions;</li> <li>• <i>Green building:</i> With no green building standards and norms rating system established, energy efficient buildings will be prioritized at the initial stage of MGFC, such as efficient use of energy, water, pollution and waste reduction measures, good indoor environmental air quality and materials efficiency;</li> <li>• <i>Green mortgages and incentive system for energy efficiency performance:</i> Sustainable green mortgages to households and financial incentive mechanism for entities will be introduced and applied.</li> </ul> |

A discussion of the technical evaluation of products across the three categories is available in the Feasibility Study of Annex 2.

<sup>33</sup> Strategies for Development of Green Energy Systems in Mongolia, Global Green Growth Institute, March 2014

## E. LOGICAL FRAMEWORK

This section refers to the project/programme's logical framework in accordance with the GCF's [Performance Measurement Frameworks](#) under the [Results Management Framework](#) to which the project/programme contributes as a whole, including in respect of any co-financing.

### E.1. Paradigm shift objectives

Please select the appropriated expected result. For cross-cutting proposals, tick both.

- Shift to low-emission sustainable development pathways  
 Increased climate resilient sustainable development

### E.2. Core indicator targets

Provide specific numerical values for the GCF core indicators to be achieved by the project/programme. Methodologies for the calculations should be provided. This should be consistent with the information provided in section A.

|                                                                                                                                                                                                          |                                                                                                                       |                                                                                                                                                                                                                                                                                                                              |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| E.2.1. Expected tonnes of carbon dioxide equivalent (t CO <sub>2</sub> eq) to be reduced or avoided (mitigation and cross-cutting only)                                                                  | Annual                                                                                                                | Total: 157,513 tCO <sub>2</sub> eq <sup>34</sup><br>Output 2A: Thermal insulation of existing houses: 21,685 tCO <sub>2</sub> eq<br>Output 2B: Energy efficiency improvement measures for business entities: 132,802tCO <sub>2</sub> eq<br>Output 2C: Mortgages for green affordable houses: 3,026 tCO <sub>2</sub> eq       |
|                                                                                                                                                                                                          | Lifetime                                                                                                              | Total: 3,754,767 tCO <sub>2</sub> eq <sup>35</sup><br>Output 2A: Thermal insulation of existing houses: 695,979 tCO <sub>2</sub> e<br>Output 2B: Energy efficiency improvement measures for business entities: 2,983,501 tCO <sub>2</sub> eq<br>Output 2C: Mortgages for green affordable houses: 75,287 tCO <sub>2</sub> eq |
| E.2.2. Estimated cost per t CO <sub>2</sub> eq, defined as total investment cost / expected lifetime emission reductions (mitigation and cross-cutting only)                                             | (a) Total project financing                                                                                           | 49.654 million USD                                                                                                                                                                                                                                                                                                           |
|                                                                                                                                                                                                          | (b) Requested GCF amount                                                                                              | 26.654 million USD                                                                                                                                                                                                                                                                                                           |
|                                                                                                                                                                                                          | (c) Expected lifetime emission reductions                                                                             | 3,754,767 t CO <sub>2</sub> eq                                                                                                                                                                                                                                                                                               |
|                                                                                                                                                                                                          | <b>(d) Estimated cost per t CO<sub>2</sub>eq (d = a / c)</b>                                                          | <b>13.23 USD / t CO<sub>2</sub>eq</b>                                                                                                                                                                                                                                                                                        |
|                                                                                                                                                                                                          | <b>(e) Estimated GCF cost per t CO<sub>2</sub>eq removed (e = b / c)</b>                                              | <b>7.1 USD / t CO<sub>2</sub>eq</b>                                                                                                                                                                                                                                                                                          |
| E.2.3. Expected volume of finance to be leveraged by the proposed project/programme as a result of the Fund's financing, disaggregated by public and private sources (mitigation and cross-cutting only) | (f) Total finance leveraged                                                                                           | 121.3 million USD                                                                                                                                                                                                                                                                                                            |
|                                                                                                                                                                                                          | (g) Public source co-financed                                                                                         | 49.1 million USD                                                                                                                                                                                                                                                                                                             |
|                                                                                                                                                                                                          | (h) Private source finance leveraged                                                                                  | 72.2 million USD                                                                                                                                                                                                                                                                                                             |
|                                                                                                                                                                                                          | <b>(i) Total Leverage ratio (i = f / b)</b>                                                                           | <b>4.55</b>                                                                                                                                                                                                                                                                                                                  |
|                                                                                                                                                                                                          | (j) Public source co-financing ratio (j = g / b)                                                                      | 1.84                                                                                                                                                                                                                                                                                                                         |
|                                                                                                                                                                                                          | (k) Private source leverage ratio (k = h / b)                                                                         | 2.7                                                                                                                                                                                                                                                                                                                          |
|                                                                                                                                                                                                          |                                                                                                                       |                                                                                                                                                                                                                                                                                                                              |
| E.2.4. Expected total number of direct and indirect beneficiaries, (disaggregated by sex)                                                                                                                | Direct                                                                                                                | 86,291 beneficiaries<br>43,145 female                                                                                                                                                                                                                                                                                        |
|                                                                                                                                                                                                          | Indirect                                                                                                              | 1,491,375 beneficiaries (population of UB)<br>745,688 female                                                                                                                                                                                                                                                                 |
|                                                                                                                                                                                                          | <i>For a multi-country proposal, indicate the aggregate amount here and provide the data per country in annex 17.</i> |                                                                                                                                                                                                                                                                                                                              |

<sup>34</sup> Note: Numbers here denote reduction in initial year

<sup>35</sup> Note: Denotes cumulative reductions over 15 years

|                                                                                    |                                                                                                |                       |
|------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|-----------------------|
| E.2.5. Number of beneficiaries relative to total population (disaggregated by sex) | Direct                                                                                         | 5.7% of UB population |
|                                                                                    | Indirect                                                                                       | 100% of UB population |
|                                                                                    | <i>For a multi-country proposal, leave blank and provide the data per country in annex 17.</i> |                       |

**E.3. Fund-level impacts**

Select the appropriate impact(s) to be reported for the project/programme. Select key result areas and corresponding indicators from GCF RMF and PMFs as appropriate. Note that more than one indicator may be selected per expected impact result. The result areas indicated in this section should match those selected in section A.4 above. Add rows as needed.

| Expected Results                                                                                                                                     | Indicator                                                                                                                                                                                                                                        | Means of Verification (MoV)       | Baseline | Target   |                               | Assumptions                                                                     |
|------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|----------|----------|-------------------------------|---------------------------------------------------------------------------------|
|                                                                                                                                                      |                                                                                                                                                                                                                                                  |                                   |          | Mid-term | Final                         |                                                                                 |
| M3.0 Reduced emissions from buildings, cities, industries and appliances<br>M3.0 Reduced emissions from buildings, cities, industries and appliances | M3.1 Tonnes of carbon dioxide equivalent (t CO2 eq) reduced or avoided - buildings, cities, industries, and appliances<br>M3.1 Tonnes of carbon dioxide equivalent (t CO2 eq) reduced or avoided - buildings, cities, industries, and appliances | MGFC programme monitoring reports | 0        | N/A      | 3,754,767 tCO <sub>2</sub> eq | See Annex 3.1 (GHG tabs) for assumptions related to GHG emissions calculations. |

**E.4. Fund-level outcomes**

Select the appropriate outcome(s) to be reported for the project/programme. Select key expected outcomes and corresponding indicators from GCF RMF and PMFs as appropriate. Note that more than one indicator may be selected per expected outcome. Add rows as needed.

| Expected Outcomes                                      | Indicator                                                                                                                                      | Means of Verification (MoV)       | Baseline                     | Target                                |                                                            | Assumptions                                                                                                                                                                                                               |
|--------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|------------------------------|---------------------------------------|------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                        |                                                                                                                                                |                                   |                              | Mid-term                              | Final                                                      |                                                                                                                                                                                                                           |
| M5.0 Strengthened institutional and regulatory systems | M5.1 Institutional and regulatory systems that improve incentives for low-emission planning and development and their effective implementation | MGFC programme monitoring reports | No green finance institution | Green finance institution established | Green financing extended to end customers using MGFC funds | Cooperation arrangements are in place via the MGFC Steering Committee<br><br>Regulatory and other agencies adopt the recommendation of by the project<br><br>Green development remains a high priority for the government |

| <b>E.5. Project/programme performance indicators</b>                                                                                                                                                                                            |                                                                          |                                   |                   |                                                |                                                   |                                                                                                                                                            |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|-----------------------------------|-------------------|------------------------------------------------|---------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>The performance indicators for progress reporting during implementation should seek to measure pre-existing conditions, progress and results at the most relevant level for ease of GCF monitoring and AE reporting. Add rows as needed.</i> |                                                                          |                                   |                   |                                                |                                                   |                                                                                                                                                            |
| Expected Results                                                                                                                                                                                                                                | Indicator                                                                | Means of Verification (MoV)       | Baseline          | Target                                         |                                                   | Assumptions                                                                                                                                                |
|                                                                                                                                                                                                                                                 |                                                                          |                                   |                   | Mid-term                                       | Final                                             |                                                                                                                                                            |
| Component 1 – Wholesale lending to PFIs: Commercially viable energy efficiency, low carbon and affordable housing projects are identified, financed and implemented.                                                                            |                                                                          |                                   |                   |                                                |                                                   |                                                                                                                                                            |
| 1.1 Energy efficiency, low carbon and affordable housing financing facilitated                                                                                                                                                                  | 1.1.1 Volume of financing (Million USD)                                  | MGFC programme monitoring reports | 0                 | 84 million USD                                 | 136.6million USD                                  | Risk training, marketing activities and the concessional terms of the programme finance improves the PFI's risk perception of commercially viable projects |
|                                                                                                                                                                                                                                                 | 1.1.2 Volume of loans disbursed by PFIs by target market (Million USD)   | MGFC programme monitoring reports | 0                 | Total 120 EE (67.9)<br>GAH (20.0)<br>TI (32.1) | Total 195.1 EE (109.8)<br>GAH (32.5)<br>TI (52.8) | N/A                                                                                                                                                        |
|                                                                                                                                                                                                                                                 | 1.1.3 Number of low carbon projects and appliances financed through MGFC | MGFC programme monitoring reports | 0                 | 20,000                                         | 40,000                                            | 40,000 number of projects: from the industrial and corporate sector and the residential sector.                                                            |
|                                                                                                                                                                                                                                                 | 1.1.4 Number of loan applications                                        | MGFC programme monitoring reports | 0                 | 20,000                                         | 40,000                                            | N/A                                                                                                                                                        |
| 1.2 Evaluation and monitoring of energy efficiency, low carbon and affordable housing financing implemented                                                                                                                                     | 1.2.1 Percentage of women in total loan subscribers                      | MGFC programme monitoring reports | 0                 | 30%                                            | 30%                                               | N/A                                                                                                                                                        |
|                                                                                                                                                                                                                                                 | 1.2.2 Percentage of female-headed households in annual loan applications | MGFC programme monitoring reports | 0                 | 10%                                            | 10%                                               | N/A                                                                                                                                                        |
|                                                                                                                                                                                                                                                 | 1.2.3 Annual estimated reduction in GHG emissions (tCO <sub>2</sub> e)   | MGFC programme monitoring reports | 0                 | N/A                                            | 157,513tCO <sub>2</sub> e                         | Baseline and end line assessments are conducted                                                                                                            |
|                                                                                                                                                                                                                                                 | 1.2.4 Total cumulated energy savings (MWh-e for project lifetime)        | MGFC programme monitoring reports | 0                 | N/A                                            | 3,967,570 MWh-e                                   | Calculation breakdown in Annex 3.1 'BC,PPM,MWh saving' tab.                                                                                                |
| Component 2 – Technical assistance grant                                                                                                                                                                                                        |                                                                          |                                   |                   |                                                |                                                   |                                                                                                                                                            |
| 2.1 MGFC Business operations are                                                                                                                                                                                                                | 2.1.1 Management advisory firm recruited                                 | MGFC programme monitoring reports | No firm recruited | N/A                                            | Firm recruited                                    | N/A                                                                                                                                                        |

|                                                                                              |                                                                                                        |                                                         |                                      |                                                                         |                                                                           |                                                                                                                                                                             |
|----------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|---------------------------------------------------------|--------------------------------------|-------------------------------------------------------------------------|---------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>established in compliance with international standards and internal capacity is built</i> | 2.1.2 Number of policies, laws, regulations, standards developed or strengthened through the programme | Official government letter                              | 0                                    | 3                                                                       | 3                                                                         | Green development remains a high priority for the government.                                                                                                               |
|                                                                                              | 2.1.3 Compliance of MGFC with good governance, transparency best practices                             | Advisory firm progress reports                          | N/A                                  | Compliance standards developed in line with international best practice | Compliance standards implemented in line with international best practice | Management advisory firm provides high quality services                                                                                                                     |
|                                                                                              | 2.1.4 Compliance of MGFC with GCF's environmental social and gender safeguards                         | MGFC programme monitoring reports                       | N/A                                  | ESG standards developed in line with GCF guidelines                     | ESG standards implemented in line with GCF guidelines                     | Good governance, transparency and ESS best practices do not vary in time by a large extent                                                                                  |
|                                                                                              | 2.1.5 Green mortgage standard developed                                                                | Annual financial audit report                           | No green mortgage standard developed | Green mortgage standards developed                                      | Green mortgage standards implemented                                      | N/A                                                                                                                                                                         |
|                                                                                              | 2.1.6 Number of direct jobs created                                                                    | MGFC programme monitoring reports                       | 0                                    | 735                                                                     | 1,470                                                                     | New job creation through green housing developers<br><br>100 construction teams consisting of 5 workers for GAH; and 100 teams for Insulation. This includes men and women. |
|                                                                                              | 2.1.7 Number of direct jobs created for women                                                          | MGFC programme monitoring reports                       | 0                                    | 250                                                                     | 588                                                                       | Increased productivity of businesses                                                                                                                                        |
|                                                                                              | 2.1.8 Percentage of women in MGFC Board composition                                                    | MGFC programme monitoring reports                       | N/A                                  | At least 40%                                                            | At least 40%                                                              | MGFC shareholders favors women candidates for Board membership                                                                                                              |
|                                                                                              | 2.1.9 At least 30% of MGFC green business development staff women                                      | MGFC programme monitoring reports                       | 0                                    | At least 30%                                                            | 33 hired, including 11 women                                              | Staff hires are processed within the planned timeline. Applications received contain enough female candidates                                                               |
|                                                                                              | 2.1.10 Number of participants to training provided to unit staff (gender disaggregated)                | Pre- and post-survey of capacity building effectiveness | 0                                    | N/A                                                                     | 33, including 11 women                                                    | Interest of PFIs is confirmed                                                                                                                                               |
|                                                                                              | 2.1.11 Number of green financial products developed                                                    | MGFC programme                                          | 0                                    | 3                                                                       | At least 5, inc. 2 targeting women                                        | N/A                                                                                                                                                                         |

|                                                                                                                |                                                                                                                                       |                                                         |   |                     |                          |                                                                                                              |
|----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|---|---------------------|--------------------------|--------------------------------------------------------------------------------------------------------------|
|                                                                                                                | – including number targeting women or vulnerable groups                                                                               | monitoring reports                                      |   |                     | and/or vulnerable groups |                                                                                                              |
|                                                                                                                | 2.1.12 Amount of tax paid from MGFC to GoM (million USD)                                                                              | MGFC programme monitoring reports                       | 0 | 1.0                 | 2.1                      | Additional tax payment from increased revenue generation will be paid by MGFC to the Government of Mongolia. |
| <i>2.2 Increased green finance capacity built among PFIs, project developers, households and policy makers</i> | 2.2.1 Number of people trained (men/women) or which participated in capacity building trainings, workshops, knowledge exchange events | Pre- and post-survey of capacity building effectiveness | 0 | 4,610 (2,305 women) | 9,220 (4,610 women)      | Training budget allocated across MGFC, PFIs and end beneficiaries                                            |
|                                                                                                                | 2.2.2 Number of PFIs with climate impact tools                                                                                        | MGFC programme monitoring reports                       | 1 | 7                   | 13                       | N/A                                                                                                          |
|                                                                                                                | 2.2.3 Number of housing developers, construction material manufacturers and suppliers taking part in the capacity building programme  | MGFC programme monitoring reports                       | 0 | 1,000               | 2,000                    | Interest of end users for the program is confirmed                                                           |
|                                                                                                                | 2.2.4 Number of workshops held for energy intensive users, policy makers and stakeholders                                             | Events and workshops attendance lists                   | 0 | 7                   | 15                       | Private sector's interest to expend their operation in the target markets is high                            |
|                                                                                                                | 2.2.5 Number of feasibility studies and energy audits co-financed                                                                     | MGFC programme monitoring reports                       | 0 | 7                   | 15                       | Projects are available and mature enough                                                                     |
|                                                                                                                | 2.2.6 Number of companies and households reached through various marketing events                                                     | MGFC programme monitoring reports                       | 0 | 2,000               | 3,000                    | Due to the difficulty in finding out gender of online users, female users are not estimated                  |
|                                                                                                                | 2.2.7 Number of ger-area residents reached through the awareness activities                                                           | MGFC website data                                       | 0 | 3,000               | 6,000                    | N/A                                                                                                          |
|                                                                                                                | 2.2.8 Number of people (men/women) participating to awareness raising events held for ger area communities                            | MGFC programme monitoring reports                       | 0 | 2                   | 5                        | N/A                                                                                                          |
|                                                                                                                | 2.2.9 MGFC used as a model for mainstreaming green, inclusive                                                                         | Number of knowledge products prepared                   | 0 | 2                   | 4                        | Project impacts are conducive and documented                                                                 |

|                                                                                                                                                                            |                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                    |                                                                                                                              |       |       |                                    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|-------|-------|------------------------------------|
|                                                                                                                                                                            | and gender sensitive finance for financing NDCs outside Mongolia                                                                                                                                                  | Number of accumulated downloads and printed copies                                                                                                                                                                                                                 | 0                                                                                                                            | 2,000 | 2,000 | High quality of knowledge products |
| <b>E.6. Activities</b>                                                                                                                                                     |                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                    |                                                                                                                              |       |       |                                    |
| See section B.2 for detailed definitive descriptions of all activities.                                                                                                    |                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                    |                                                                                                                              |       |       |                                    |
| <b>Activity</b>                                                                                                                                                            | <b>Description</b>                                                                                                                                                                                                | <b>Sub-activities</b>                                                                                                                                                                                                                                              | <b>Deliverables</b>                                                                                                          |       |       |                                    |
| <b>Component 1: Wholesale lending to PFIs - Commercially viable energy efficiency, low carbon and affordable housing projects are identified, financed and implemented</b> |                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                    |                                                                                                                              |       |       |                                    |
| <b>Output 1.1: Energy efficiency, low carbon and affordable housing financing facilitated</b>                                                                              |                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                    |                                                                                                                              |       |       |                                    |
| <b>Activity 1.1.1</b> Assessment, selection and contracting of PFIs through open calls based on pre-approved eligibility criteria                                          | Using support from Component 2, MGFC will develop a standard Participating Bank Agreement (PBA) in consultation with PFIs and announce open expressions of interest for PFIs willing to benefit from the funding. | - PBA development<br>- Announcement of EOI, every 12 months<br>- Technical and environmental experts required for customized investment plan formulation and assessment, including for on-site visits to clients' facilities                                       | PBA developed and in place with participating PFIs selected                                                                  |       |       |                                    |
| <b>Activity 1.1.2</b> Provision of wholesale funding for selected PFIs                                                                                                     | PFIs meeting the eligibility criteria and having signed the PBA will benefit from wholesale funding from the institution.                                                                                         | - Loan disbursement processes to PFIs<br>- Financial resources and technical expertise deployed to develop, assess, finance and report on projects                                                                                                                 | Loan disbursement to PFIs                                                                                                    |       |       |                                    |
| <b>Output 1.2: Evaluation and monitoring of energy efficiency, low carbon and affordable housing financing implemented</b>                                                 |                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                    |                                                                                                                              |       |       |                                    |
| <b>Activity 1.2.1</b> Assessment and financing of selected projects following credit analysis and eligibility assessment based on pre-established list of loan criteria    | Eligibility of MGFC's Category A and C products will be assessed using pre-established lending criteria by each PFI; MGFC may carry out assessment at project level for MGFC's Category B projects.               | Assessment of selected projects by both PFIs and MGFC                                                                                                                                                                                                              | Financial resources, on commercial and/or concessional terms, deployed to support the implementation of the eligible project |       |       |                                    |
| <b>Activity 1.2.2</b> Monitoring, reporting and verification (MRV) of GHG emissions reduction and other co-benefits at PFI and project levels                              | MGFC will consolidate MRV reports from PFIs and carry out direct MRV of GHG emissions for projects financed directly by the institution.                                                                          | - Dedicated expertise required for the aggregation and maintenance of results tracking databases and webpage with the estimated impact of the financed projects and measures<br>- Verification experts required to verify the physical implementation of projects. | Dedicated results tracking databases and webpages in place                                                                   |       |       |                                    |
| <b>Activity 1.2.3</b> Develop mechanism to monitor, report and verify (MRV) gender impacts and other social co-benefits at PFI and project levels                          | MGFC will consolidate MRV reports from PFIs and carry out direct MRV of gender impacts and other social co-benefits for projects                                                                                  | Dedicated expertise required for the aggregation and maintenance of results tracking databases and webpage with the estimated impact of the financed projects and measures.                                                                                        | Dedicated results tracking databases and webpages in place                                                                   |       |       |                                    |

|                                                                                                                                       |                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                  |
|---------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                       | financed directly by the institution.                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                  |
| <b>Component 2: Technical Assistance Grant</b> - The capacity of MGFC and the enabling environment for green finance are strengthened |                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                  |
| <b>Output 2.1: MGFC business operations established in compliance with international standards and internal capacity is built</b>     |                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                  |
| <b>Activity 2.1.1</b> Capitalization of MGFC and procurement of goods and services to prepare MGFC for full operationalization        | Equity injections will be made into MGFC from the Government of Mongolia, CGF LLC, and the GCF and the assets required for operationalization will be purchased | <ul style="list-style-type: none"> <li>- Facilitation of equity capitalization from CGF LLC, GoM, and GCF</li> <li>- Procurement of goods and services</li> <li>- Preparation of legal documents</li> </ul>                                                                                                                                                                                          | <ul style="list-style-type: none"> <li>- Required equity is injected into MGFC</li> <li>- Goods and services procured and operationalization achieved</li> </ul> |
| <b>Activity 2.1.2</b> Advisory services to assist MGFC management                                                                     | An international advisory firm will be hired to enhance and complement the capacity of the local management team of MGFC.                                       | <ul style="list-style-type: none"> <li>- Procurement of consulting services</li> <li>- Stakeholder consultations, training, guideline, regulation, policy dialogue, reporting</li> </ul>                                                                                                                                                                                                             | <ul style="list-style-type: none"> <li>- Procurement process implemented</li> <li>- Advisory firm work deliverables as defined in the RFI in Annex 23</li> </ul> |
| <b>Activity 2.1.3</b> Internal capacity building programme for MGFC management and staff                                              | XacBank will procure support to MGFC in building its internal capacity on a number of subjects critical for the successful operations of the institution.       | <ul style="list-style-type: none"> <li>- Advisory firm procurement with experience in fund management and green finance.-</li> <li>- Training experts, complemented by financial and technical experts, develop training materials and deliver targeted training sessions for a range of PFI staff: sales, client relationship managers, credit experts</li> </ul>                                   | Capacity building assessed and training programme designed and implemented                                                                                       |
| <b>Output 2.2: Increased green finance capacity built among PFIs, project developers, households and policy makers</b>                |                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                  |
| <b>Activity 2.2.1</b> Development of green finance standards                                                                          | Expert support will be brought to relevant institutional stakeholders in the definition of green finance standards for products categories financed by MGFC.    | <ul style="list-style-type: none"> <li>- Corporate planning and process mapping experts develop strategy of PFIs to mainstream and increase financing of projects</li> <li>- Synergies with existing technical assistance sought</li> <li>Work with relevant stakeholders (MET, MCUD, MSFA, Banks and project developers) to help elaborate the relevant standards (e.g. green mortgage).</li> </ul> | Green finance standards developed for MGFC                                                                                                                       |
| <b>Activity 2.2.2</b> Support for the drafting of a Law on NBFIs doing wholesale lending                                              | A legal adviser will be hired to support the drafting of a law on NBFIs involved in wholesale lending.                                                          | <ul style="list-style-type: none"> <li>- Procurement of consulting services</li> <li>- Consultations with relevant stakeholders to ensure inclusiveness of views</li> <li>- Draft law development</li> <li>- Stakeholder consultation meetings</li> </ul>                                                                                                                                            | NBFI law drafted                                                                                                                                                 |
| <b>Activity 2.2.3</b> Comprehensive capacity building programme for PFIs                                                              | The executing entity will support the delivery of trainings to PFIs on green finance, GHG emissions measurement,                                                | MGFC green business development unit to develop training modules and organize capacity building trainings and events, covering: identifying business opportunities among existing and new clients, screening existing portfolio and loan                                                                                                                                                             | Trainings delivered to PFIs                                                                                                                                      |

|                                                                                                                                                           |                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                  |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                           | monitoring and reporting, green finance product development, marketing and awareness raising, and ESG compliance.                                                                                                                                                            | products; properly assessing environmental and social risks, implementing the Environmental and Social Management Framework; understanding gender implications and issues and applying the Gender Action Plan.                                                                                |                                                                                                                                                                                                                                  |
| <b>Activity 2.2.4</b> Technical assistance for market assessment, feasibility studies and energy audits of selected projects                              | The executing entity will commission a consultant or firm to support MGFC's green business development activity, by providing free technical assistance to mature projects needing support with feasibility or specific pre-identified technical services.                   | <ul style="list-style-type: none"> <li>- Procurement of consulting services</li> <li>- Additional sectoral market assessments to identify market opportunities for additional green products lines.</li> </ul>                                                                                | <ul style="list-style-type: none"> <li>- Technical assistance to mature projects provided and additional market opportunities identified</li> <li>- Advisory firm work deliverables as defined in the RFI in Annex 23</li> </ul> |
| <b>Activity 2.2.5</b> Capacity building programme for green housing developers, construction material manufacturers and suppliers, energy intensive users | A capacity building programme will be designed and implemented for project developers on the three markets targeted by MGFC.                                                                                                                                                 | <ul style="list-style-type: none"> <li>- Capacity building programme design</li> <li>- Topics include workshops for EE efficient house design, site visits between developers and other focused training activities.</li> <li>- Synergies with existing projects will be explored.</li> </ul> | Capacity building programme implemented                                                                                                                                                                                          |
| <b>Activity 2.2.6</b> Engagement and capacity building of ger area sub-district representatives and civil society groups                                  | In order to raise the awareness of ger area households about the rationale for switching to clean technologies, available financial and other support from MGFC and obtain users feedback on technologies already in use, a network of local representatives will be formed. | <ul style="list-style-type: none"> <li>- Marketing experts and event organizing resources for client events</li> <li>- Representatives will hold regular focus group discussions at sub-district level.</li> <li>- Partnering with prominent civil society groups</li> </ul>                  | Engagement and capacity building carried out                                                                                                                                                                                     |
| <b>Activity 2.2.7</b> Creation and facilitation of a network of women benefiting from MGFC financial products (green housing and insulation)              | The executing entity, with the participation of MGFC and PFIs, will support the creation of a network to empower women living in the ger area through networking events, trainings and information sessions.                                                                 | <ul style="list-style-type: none"> <li>- Marketing experts and event organizing resources for client events</li> <li>- Partnership with women and gender NGOs such as for instance the Mongolian National Gender Equality Center or Young Women for Change will be explored.</li> </ul>       | Network developed and trainings and information sessions implemented                                                                                                                                                             |

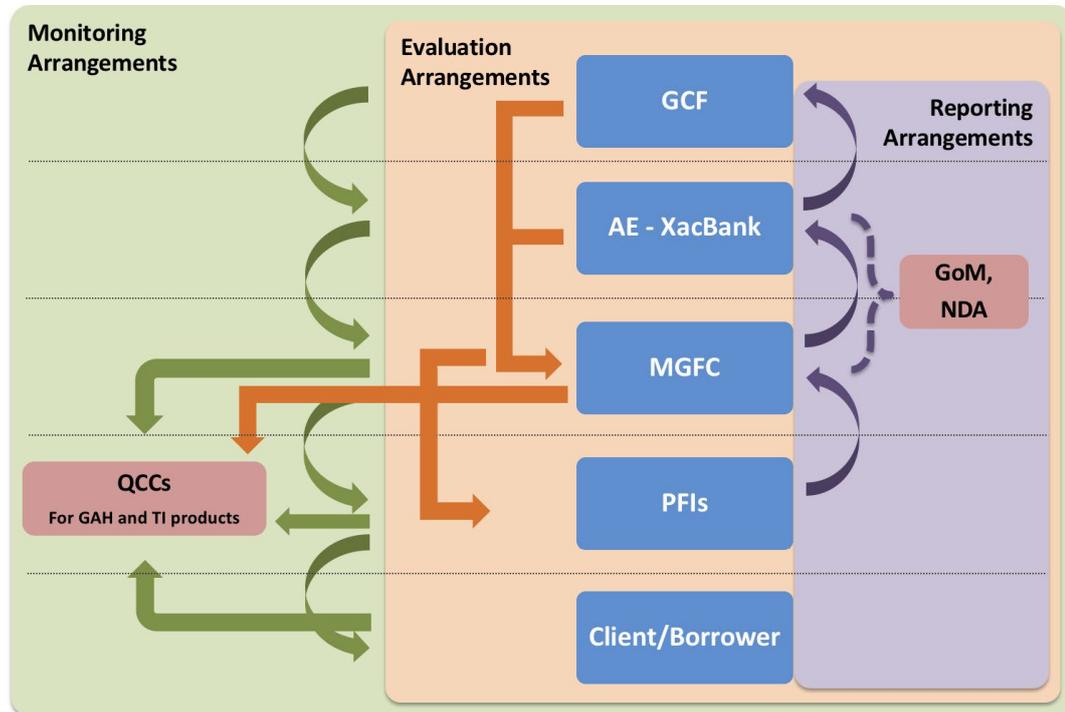
**E.7. Monitoring, reporting and evaluation arrangements (max. 500 words, approximately 1 page)**

**Summary of arrangements for Monitoring, Reporting and Evaluation**

A multi-tiered monitoring, reporting and evaluation (MRE) approach will be adopted for programme implementation. MRE arrangements shall comply with the relevant GCF policies as agreed in the MAF,

AMA and other relevant documents. Figure E.7.1 shows project specific MRE implementation arrangements among key stakeholders.

**Figure E.7.1 Programme Monitoring, Reporting and Evaluation arrangements**



MGFC has adopted a Green Impact Framework that details the monitoring, reporting, and verification requirements of PFIs and MGFC-funded projects. In addition, a programme-level MRV plan was developed. The main principles and mechanisms of the programme MRV plan are below.

## Monitoring

### Programme oversight and monitoring

GCF's Accredited Entity - XacBank will provide oversight and monitoring on Component 1 of MGFC's activities, making sure that the project executing and implementing entity, MGFC, reaches all programme milestones as planned. More specific XacBank oversight will include the functions defined in detail in Annex 11.

More detailed monitoring will cover programme performance against operational (including GHG reduction climate objectives), safeguard's compliance and financial objectives.

Operational Performance Monitoring will involve measuring the implementation status of outputs and outcomes against key performance indicators described in the Logical Framework. MGFC will monitor all aspects of programme implementation including the monitoring of PFI's performance. PFIs are responsible for monitoring Clients/Borrowers to ensure loan is being used effectively and is being repaid as contracted.

Project monitoring: With the above assumptions of implementation schedules, the following frequency of energy audits is expected to be carried out as defined in Annex 11.

Compliance Monitoring will tackle, among other legal and policy requirements, MGFCs E&S Policy and Gender Policy compliance. Specific actions are detailed in in Annex 11.

## Reporting

The primary responsibility for day-to-day project monitoring, evaluation, implementation and reporting rests with the MGFC's CEO and the Executive team. The Chief Green Investment Officer (CGIO) in charge of Green Business Development Department who will develop annual work plans, MRE plans and outputs' indicators to ensure efficient implementation of the programme. The CEO, CGIO and Executive team will advise the MGFC Board of any delays or difficulties faced during implementation so that appropriate support or corrective measures can be adopted in a timely and appropriate manner. Activities outlined here are subject to change during the initialization phase based on the recommendations of GIG during PPF activities.

**A programme implementation report (PIR)** will be prepared for each year of programme implementation. The series of reports to monitor project performance and reporting arrangements include the following flows, which are detailed in Annex 11.

1. Reporting of PFI to the MGFC
2. Reporting of the MGFC's Executive team to the MGFC Board
3. Reporting of the MGFC to the AE XacBank and GCF
4. Reporting of the MGFC Board to Shareholders meeting, GoM and NDA

**Table E.7.2 GCF reporting schedule (excluding periodic PIRs)**

| Milestones/ Reports                   | Expected Dates                                                                                                                                                         |
|---------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Start of Project Implementation       | FAA Effective Date                                                                                                                                                     |
| Inception report                      | Within 6 months from the FAA Effective Date                                                                                                                            |
| Interim Report                        | MGFC will produce two interim reports, supplemented by independent mid-term review, within the lifetime of the project: upon year 5 and year 10 milestone achievement. |
| Project Completion Report (Final APR) | Within 12 months after project completion date.                                                                                                                        |
| Final Independent Evaluation Report   | Within 12 months after the submission of the project completion report.                                                                                                |

Audited financial statements of MGFC will be submitted each year to the AE-XacBank and then submitted to the GCF.

## Evaluation

GCF will evaluate programme level performance of MGFC's activities through its AE-XacBank, while the MGFC will undertake project level evaluation of PFIs and QCCs performances. In-house Energy Efficiency auditing team will evaluate the success and risks of projects. Technical reports will include review and evaluation of the technical performance of projects, capacity building results, estimated climate mitigation impact, and finance efficiency.

**Table E.7.3 Programme stakeholders varying roles and responsibilities**

| Stakeholders | MRE Responsibilities                                                                                                                                                                                                                                                                                                                                                      |
|--------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| GCF          | <ul style="list-style-type: none"> <li>• Review periodic programme reports and propose adjustments;</li> <li>• Provide guidance, advice and feedback.</li> </ul>                                                                                                                                                                                                          |
| AE - XacBank | <ul style="list-style-type: none"> <li>• Review the progress and result reports and propose adjustments;</li> <li>• Verification of achievement of key performance indicators including climate objectives and GHG reduction;</li> <li>• Monitoring of MGFC's performance, compliance and effectiveness;</li> <li>• Send periodic progress reports to the GCF.</li> </ul> |

|                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| MGFC                                   | <ul style="list-style-type: none"> <li>• Monitor and evaluate all aspects of programme implementation throughout its lifetime;</li> <li>• Develop MRE annual plans with activity, output and impact indicators;</li> <li>• Communicate MRE plans and reporting templates with relevant stakeholders;</li> <li>• Plan, manage and implement human, technical and financial resources required for MRE;</li> <li>• Monitor and evaluate operational and financial activities of PFIs;</li> <li>• Supervise, monitor and evaluate operational and technical activities of QCCs;</li> <li>• Produce, communicate and disseminate scheduled reports to AE, GCF, GoM, NDA and other relevant stakeholders;</li> <li>• Develop MRE capacity building and quality assurance literature for trainings and dissemination;</li> <li>• Organize and facilitate MRE capacity building and training activities among PFIs, QCCs and Borrowers;</li> </ul> |
| PFIs                                   | <ul style="list-style-type: none"> <li>• Monitoring of Clients/Borrowers with regard to loan usage and loan repayments;</li> <li>• Loan study/decision, loan risks, verification of evaluations;</li> <li>• Internal MRE capacity building;</li> <li>• Produce scheduled financial and progress reports to the MGFC</li> <li>• For GAH and TI products, monitoring of construction quality and compliance of QCCs in line with pre-agreed norms and standards;</li> <li>• Produce and monitor the progress of cooperation agreements with construction companies and MGFC;</li> <li>• Monitor the quality of construction in line with pre-approved drawings, norms and standards developed into guide literature by the MGFC.</li> </ul>                                                                                                                                                                                                   |
| Qualified Construction Companies (QCC) | <ul style="list-style-type: none"> <li>• Internal monitoring of compliance with approved building designs, drawings, construction materials, norms and standards</li> <li>• Produce and ensure compliance with construction contracts with Borrowers and PFIs;</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Clients                                | <ul style="list-style-type: none"> <li>• Loan application to PFIs;</li> <li>• Ensure that loan is used for intended purpose;</li> <li>• For GAH and TI products, select house design, insulation solution and construction/service company;</li> <li>• Participate in MRE trainings and workshops organized by the MGFC (for energy intensive users in MGFC's Category B loans).</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

## F. RISK ASSESSMENT AND MANAGEMENT

### F.1. Risk factors and mitigations measures (max. 3 pages)

The guiding principal of optimal risk allocation is to allocate risk to the party that is best able to manage that risk. Various risk mitigation consideration and negotiations are taken into account in designing and preparing the investment and loan financing proposal to the GCF.

#### Selected Risk Factor 1: Management capacity

| Category                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Probability | Impact |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|--------|
| Technical and operational                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Low         | Medium |
| Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |             |        |
| Project effectiveness could suffer a lack of sufficient human resources for Executive team and management                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |             |        |
| Mitigation Measure(s)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |             |        |
| The MGFC programme consists of 2 complementary Components: (1) loan financing and (2) the grant and equity component. XacBank will serve as Executing entity for equity investment as well as the grant component aimed at MGFC institutional capacity building and management. Hence, XacBank will have necessary control and responsibility for overseeing the monitoring MGFC's operations. MGFC's BoD will select a management team. Separate technical assistance will be in place for technical, management and green financial product development by GGGI and others. |             |        |

#### Selected Risk Factor 2: Foreign exchange risk

| Category                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Probability | Impact |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|--------|
| Forex                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Medium      | Medium |
| Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |             |        |
| Risk of MNT devaluation at redemption of preferred shares and dilution of the common shares.                                                                                                                                                                                                                                                                                                                                                                                                                          |             |        |
| Mitigation Measure(s)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |             |        |
| As a small open mining-driven economy Mongolia maintains flexible foreign exchange regime. The economy and currency are still affected by volatile commodity prices. While the GCF investment and loan financing are expected in USD the MGFC financing is planned in MNT. Hence, the greatest risk that might affect both financial and operational performance of the MGFC is foreign exchange risk. The MGFC will manage its foreign exchange risk through long-term foreign exchange swap agreement with the BoM. |             |        |

#### Selected Risk Factor 3: Political and regulatory risk

| Category                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Probability | Impact |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|--------|
| Technical and operational                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Low         | Low    |
| Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |             |        |
| Risk of changes in the regulatory environment for extending green credits and operations of the MGFC                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |             |        |
| Mitigation Measure(s)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |             |        |
| The MGFC is a joint project of the public, private sector and international partners. GoM represented by the MoF is a shareholder and primary supporter of the MGFC. Any changes in legal and regulatory environment are subject to consent of the MoF and other ministries. MET is also represented at the Advisory Board of the MGFC to ensure that MGFC activities are coordinated and aligned with GoM policy for climate change mitigation and adaptation. Through the MOU, the founding parties documented the milestones to be achieved and roles and responsibilities of the parties. The MGFC Steering Committee was officially established by Joint Resolution A343/166 of the Minister of Environment and Tourism and the Minister of Finance, dated July 10 2019. An additional MoU was signed in April 2020, between MET, MSFA, and 11 banks expressing their continued commitment. |             |        |

| <b>Selected Risk Factor 4: Credit risk</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |             |        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|--------|
| Category                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Probability | Impact |
| Credit                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Low         | Low    |
| Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |             |        |
| Risk of non-performing loans in the MGFC portfolio affecting the performance and profitability of the MGFC operations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |             |        |
| Mitigation Measure(s)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |             |        |
| MGFC is a wholesale financial institution, which significantly differs from retail credit operations in terms of staffing and required skills. By design, the credit risk is diluted to PFIs, who have significant experience and the necessary infrastructure in extending and servicing retail loans and therefore are the best positioned to manage the credit risk. Hence, the project credit risk analysis is conducted primarily by the PFIs, with project feasibility and ESS and gender impact analysis being actively monitored by the MGFC in collaboration with the PFIs through the expanded TA activities in support of capacity building. In addition, MGFC, with support from IFIs, provides capacity building to PFIs on project analysis, financing and long-term financing instruments.                             |             |        |
| <b>Selected Risk Factor 5: Legal risk</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |             |        |
| Category                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Probability | Impact |
| Legal                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Low         | Low    |
| Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |             |        |
| Risk of changes in legal environment affecting ability of the MGFC operations and limitations (the prudential ratios) that apply to NBFIs                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |             |        |
| Mitigation Measure(s)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |             |        |
| The MGFC will provide credit to PFIs with a Non-Bank Financial Institution (NBFI) license under the supervision of the Financial Regulatory Commission of Mongolia (FRC). NBFI is a regulated institution and subject to regular monitoring and compliance requirements. While the compliance requirements add additional efforts, those intended to protect consumers and shareholders of the institution from taking unnecessary risks and derailing from original purposes. FRC drafts amendments into the NBFA Law and NBFI Prudential requirements. An examination of the regulatory limitations (the prudential ratios) that apply to NBFI and a detailed analysis of the relevant risk mitigation solutions are included in Annex 9 – Legal Due Diligence.                                                                     |             |        |
| <b>Selected Risk Factor 6: Co-financing risk</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |             |        |
| Category                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Probability | Impact |
| Technical and operational                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Low         | Low    |
| Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |             |        |
| Adequate counterpart funding for MGFC is not made available promptly. In addition, attracting additional co-financiers in phases 2 and 3 could pose risk of diluting prioritization of the GCF's paradigm shift investment criteria.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |             |        |
| Mitigation Measure(s)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |             |        |
| The MoF and MET expressed officially its intent to invest at least USD 5.0 million as common shares and potential other funding for expansion of the MGFC capitalization. MoF's investment is documented by the commitment letter annexed to this proposal. PFI's also provided collective commitment letter for investment into and co-financing for the MGFC products, as provided in Annexes 13.1 and 13.2. When additional capital and financiers are bought on in phases 2 and 3, it will be done such that the paradigm shifting mandate of MGFC and investment criteria are preserved. GCF's involvement alone is paradigm shifting in that it will unlock the institutions early success and enable Mongolia to attract a wider breadth of capital (both entities and forms of finance) to drive Mongolia's green transition. |             |        |
| <b>Selected Risk Factor 7: Macroeconomic risk</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |             |        |
| Category                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Probability | Impact |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |             |        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|--------|
| Technical and operational                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Low         | Medium |
| Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |             |        |
| Adverse economic shocks such as economic downturn or collapsing commodity prices make the project financially not feasible                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |             |        |
| Mitigation Measure(s)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |             |        |
| Financial projections have been run based on various economic and financial scenarios. The outcomes of the financial projections resulted in decent return and ability to mobilize significant resources for green financing. The GHG emissions reduction induced remain fairly robust in all scenario analyses. The MGFC program is resilient to expected levels of economic shocks with costs and affordability rising or falling at similar levels.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |             |        |
| <b>Selected Risk Factor 8: Operational and Institutional risk</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |             |        |
| Category                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Probability | Impact |
| Technical and operational                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Medium      | Medium |
| Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |             |        |
| Risk of inadequate operations and lack of capacity, dysfunction of corporate governance, conflict of interest                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |             |        |
| Mitigation Measure(s)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |             |        |
| <p>The shareholders meeting is the principal governing body of the institution and is best positioned to setup optimal structure and achieving solid governance of the institution. MGFC will adhere to the highest professional and industry standards and principles (e.g. OECD Corporate Governance Principles) in terms of transparency, open competitiveness and knowledge-based approach in governance, management and recruitment. A balanced composition of shareholders and affected parties and the appointment of competitive directors are important components towards achieving those objectives. MGFC requested international partners for support, and some have already shown commitment to provide capacity building for MGFC, at least during early operations phase and jumpstarting. The grant component, which is managed by XacBank and targeted for MGFC institutional capacity building, will also mitigate operational risk. XacBank will be monitoring and implementing GCF's policy and guidelines. Regarding risk of conflict of interest, the Green Investment Group identified (during PPF activities) specific actions that can be taken to minimize the risk of conflict of interest, such as:</p> <ol style="list-style-type: none"> <li>1) Placing fuller emphasis in MGFC's investment mandate on (a) MGFC's role as a source of wholesale funding, rather than a competitor for banking business, and (b) additionality obligations;</li> <li>2) Putting in place suitable systems to restrict XacBank's access to certain information, or its participation in decisions where it has a conflict of interest (potentially by a adopting a system similar to the GIB Investment Committee process, where the board delegated decisions to the CEO and an independent Investment Committee); and</li> <li>3) Ensuring that the PFIs are suitably controlled and monitored by MGFC to ensure that the distribution of products funded by MGFC is additional and does not displace other sources of market capital that could have been accessed for the same purpose.</li> </ol> |             |        |

## G. GCF POLICIES AND STANDARDS

### G.1. Environmental and social risk assessment (max. 750 words, approximately 1.5 pages)

The MGFC falls into the I2 project classification, as per the definition of the GCF which is “activities with potential limited adverse environmental and social risks and impacts that cumulatively are few, generally site specific, largely reversible and readily addressed through mitigation measures.”

An E&S Policy and Gender Policy, together with a gender assessment and action plan, is prepared in order to ensure MGFC is run in compliance with the principles below. Versions of the documents are provided in Annex 6. The E&S Policy stipulates to:

- Avoid, and where avoidance is impossible, mitigate adverse impacts to people and the environment;
- Enhance equitable access to development benefits; and
- Give due consideration to vulnerable populations, groups, and individuals (including women, children, and people with disabilities, and people marginalized by virtue of their sexual orientation or gender identity), local communities, indigenous peoples, and other marginalized groups of people and individuals that are affected or potentially affected by GCF-financed activities.

The Mongolian Sustainable Finance Association (MSFA) has conducted a Sustainability Assessment in the Mongolian banking sector in 2020. The report (Annex 6.3) summarizes the current Sustainability Management System, Green Lending, and E&S risk management capacity of banks. All banks in Mongolia were appraised in the report. A detailed summary of the findings can be found in Section 1 of Annex 6.3; some main points from the report are summarized below:

- All PFIs have an existing Environmental and Social Management System, including an Environmental and Social Impact Assessment Policy, and Procedures;
- 3 banks were evaluated at ‘Established’ stage, 5 banks at ‘Developing’ stage, and 6 at ‘Initiating’ stage in terms of E&S Progress;
- E&S Risk is considered in the final loan decision making in 13 banks;
- Since 2018, a total of 7678 loans equal to USD 4.6 billion or 75.17% of the banking sector’s total loan portfolio has undergone E&S risk assessment and mitigation procedures. 45 loan requests with the amount of USD 7.6 million has been denied due to potential E&S risks and negative impacts.
- Currently, 7 banks offer green loan products, in partnership with IFIs and the GoM;
- Sustainable agriculture, green building, and energy efficiency are most offered green loans.

As discussed in detail previously, the MGFC has three main product lines: thermal insulation of existing houses, energy efficiency improvement measures for business entities, and mortgages for green affordable houses. The Consumption loans and mortgage loans are in GCF’s category C (Activities with minimal or no adverse environmental and/or social risks and/or impacts) which do not need an individual ESIA. However, for the business loan component, an ESIA policy must be present for all the member banks of the MGFC. The “established” and “developing” banks had a high enough score on the ESG section and had similar ESDD methods and guidelines to evaluate the ESIA of business loan projects, and most are similar to that of XacBank (Annex 6.4). Therefore, there is no immediate need to change the scoresheet and guidelines for the ESIA for such banks. However the “initiating” banks had scored low on the ESG section and had relatively weak ESG evaluation systems in place. Therefore it is imperative that the banks that were classified in the “initiating” group, or developing banks that have notably different ESIAs, must follow the ESIA template that is provided by the MSFA for business loans. The guidelines and scoring metrics are explained in Annex 6.1 and 6.2.

The E&S Policy, Gender Policy and GAP will serve as a basis for defining MGFC’s Environmental, Social and Governance (ESG) Standards and operational processes to assess and ensure compliance with GCF’s Environmental and Social Safeguards (ESS) as well as its Gender Equality and Social Inclusion (GESI) policies. Robust ESG Standards and operational processes will be an integral part of MGFC’s overall risk management and due diligence approach, which will be implemented with a two-phased approach: i) Before a lending decision is made, an initial ESS and gender screening will be conducted, using PFI’s existing safeguards due diligence tools for suitable projects and clients, questionnaires, site visits, and third party consultants (where and when required) to determine if it adequately manage its risks; ii) After investment, an environmental and social management plan will be implemented to document

positive environmental and social impacts, and track risk mitigation measures in key identified risk areas. For some challenging issues a potential progress report will also be required for project developers to communicate on their action plans.

All project developers will be required to adhere to MGFC's ESG Standards, and related covenants in contractual agreements will make this compliance mandatory. These commitments are described in more detail in the MGFC's E&S Policy. MGFC's E&S Policy is developed in accordance with the E&S Policy of the Green Climate Fund (GCF).

The E&S Policy therefore:

- Provides a reference tool for the selection of Participating Financial Institutions (PFIs) to ensure that only PFIs that are committed and able to comply with applicable E&S standards defined by GCF and XacBank as well as applicable national laws receive funding from MGFC; and
- Provides a reference tool for implementation of investment projects according to E&S standards defined by GCF and XacBank and in compliance with the applicable national standards

## G.2. Gender assessment and action plan (max. 500 words, approximately 1 page)

A Gender Policy for MGFC was developed and approved by the MGFC BOD. Once MGFC is fully operational, MGFC will conduct a sector level gender baseline study and develop a **Gender Strategy** to further improve the current Policy and guide the operation of its PFIs. The Strategy is expected to be consistent with international agreements and will largely reflect the principles set out in the GCF's Gender Equality and Social Inclusion Policy. It will also reflect principles outlined in the Sustainable Development Goals as well as the Lima Work Programme on Gender, Mongolia's Law on promotion of gender equality and National program on gender equality, and any other national priorities as they relate to promoting gender equality in Mongolia.

According to MGFC's current Gender Policy, gender will be mainstreamed at the levels of (i) the institution – MGFC, (ii) Participating Financial Institutions (iii) investment projects level.

- (i) MGFC's commitment to promoting gender equality and women's empowerment will be reflected in its governance structure, seeking gender balance at the decision-making and senior manager levels as well as the project level;
- (ii) At the PFI level, MGFC will encourage gender diversity in staffing the team and at decision-making levels, as well as encourage adopting project financing criteria that has significant gender impacts; and
- (iii) At the investment project level, MGFC will require all of its PFIs to consider gender dimensions across the full project cycle (design, development, construction and operation) and take actions both at the level of "doing no harm" as well as promoting direct positive benefits for women. For example, MGFC will look into internationally recognized standards such as W+ Standards developed by WOCAN to better measure the impacts of women's empowerment and accelerate investments in women and women's groups to address persistent gaps in their access to resources and capital and scape up solutions to climate change.

Such actions will be premised upon:

- Being cognizant of and striving to address gender inequalities, whether real or potential, in the project;
- Ensuring women and men enjoy equal access to project resources, assets, benefits, opportunities, services, capacity building;
- Ensuring equal voice between women and men in the decision-making processes at the MGFC level; and
- Collecting and analyzing sex-disaggregated data and qualitative information to track the real gender impacts of the project on an annual basis.

In addition, as part of its reporting on impact, MGFC will consider developing specific metrics to track and report on that will be related to gender impact of its investments. Indicators will be tracked across the full project cycle (project design/development, construction and operations) and will include data on:

- Local job creation, including promotion of women entrepreneurship;
- Local public participation and decision making; and
- Trainings received.

### G.3. Financial management and procurement (max. 500 words, approximately 1 page)

The investment proceeds of the GCF will be managed according to the general provisions of: (i) the shareholders and investment agreement of the MGFC; (ii) the AMA between the GCF and XacBank; and (iii) Financial management and procurement guidelines of the MGFC as an Executing Entity. The GCF investment into MGFC will serve as the initial capitalization and will make the largest part of the lending facility of the MGFC. MGFC, as an Executing Entity of Component 1, will disburse funds through PFIs via on-lending loan agreement(s) executed between the MGFC and PFIs.

**International FI Management Advisory Support:** Assistance of international consulting experts is expected for further enhancing and complementing the local capacity. To this end the MGFC plans to hold an international competitive bid inviting experienced firms and individuals to provide consultancy services to the MGFC. As an Executing Entity of Component 1 and Component 2, XacBank will be responsible for selecting and contracting international advisory entity to assist the EMT.

**PFI selection: PFIs are selected according to the criteria set and approved by the Board of the MGFC.** PFI selection criteria is to be developed and monitored regularly. The set of criteria, which will serve as the main benchmark for PFI eligibility for credit, will be based on such indicators as compliance with regulatory requirements of the BoM, financial performance, environmental and social safeguards and gender policy and capacity, track record, leverage ratio, disbursement mechanism, assets, market size and etc. (for detailed description of PFI selection process please refer to the Governance Oversight Guideline (Annex 21) and Credit Policy and Procedures (Annex 26 and Annex 49 respectively)).

**Financial management/Regulatory:** MGFC will operate under an NBFi license and NBFis are regulated institutions under the FRC of Mongolia. The NBFi activities are regulated under the Law on Non-banking financial activities of Mongolia (NBFA) and relevant regulations approved by the FRC. An extensive set of policies and regulations applicable to the establishment and operations of NBFi exist (for more details on regulatory requirements for NBFi operations please refer to Section 1 of Annex 9 (Legal Due Diligence)).

**Financial accounting:** As a regulated institution the MGFC will follow FRC regulation: *Accounting guidelines of NBFi* approved in 2008 and amended in 2013. The accounting guidelines provide detailed procedures and requirements of the chart of accounts, accounting principles as well as reporting requirements for the NBFis. NBFis also required to utilize FRC approved accounting software(s) in its daily operations. The NBFi accounting and financial reports are to be undertaken in accordance with International Financial Reporting Standards and Accounting Law of Mongolia.

**Procurement:** MGFC will develop and utilize its own Financial management and Procurement policies for its daily operations. These policies will be developed in line with international and domestic best practices, including GCF's, the ones of the AE, and will serve as guiding principles for MGFC, as well as for any relevant parties' investors or auditors wishing to better understand MGFC's basic financial operating procedures.

The management and procurement of Component 2 (grant component) under the project will be implemented by the AE, XacBank. As an AE, XacBank will require and ensure that its procurement policies and procedures are properly applied (as noted in Annex 10) for the purchase of goods and services under the grant component (Component 2) of the MGFC (for more information on procurement policy of MGFC, please refer to Section 2.3.3 of the Governance Oversight Guideline (Annex 21)).

**Disbursement mechanism:** At the initial stage of the project, MGFC will operate as a wholesale financial institution and provide financing to beneficiaries through PFIs. As such, the MGFC will disburse its financing through an On-lending agreement executed between MGFC and each PFI. The PFIs, in turn, are obligated to provide sub-loans to beneficiaries under the sub-loan agreement between PFI and the borrower, mirror terms and conditions agreed under

the on-lending loan agreement (for more details on disbursement mechanism please refer to Section 4 of the Governance Oversight Guideline (Annex 21)).

**Auditing and regulatory compliance monitoring:** MGFC has adopted a Compliance Management Policy which oversees compliance at MGFC and PFI level. As described in Section B.4, MGFC's Board will appoint an Auditor, who will be responsible for internal financial auditing, including financial review, internal control and regulatory monitoring in accordance with the relevant national and international auditing standards and regulations. An internationally acknowledged audit firm may be outsourced to conduct such responsibilities. According to the FRC regulatory requirements, the MGFC accounts and financial statements will be fully audited by an independent professional contractor (CPA firm) and published within February 15 of each year (for more information on auditing and regulatory compliance please refer to Section 2.1.6, Section 2.2.5, AML/CTF Policy and Credit Policy (Annex 26) and Section 1 of Annex 9 (Legal Due Diligence)).

#### G.4. Disclosure of funding proposal

*Note: The Information Disclosure Policy (IDP) provides that the GCF will apply a presumption in favour of disclosure for all information and documents relating to the GCF and its funding activities. Under the IDP, project and programme funding proposals will be disclosed on the GCF website, simultaneous with the submission to the Board, subject to the redaction of any information that may not be disclosed pursuant to the IDP. Information provided in confidence is one of the exceptions, but this exception should not be applied broadly to an entire document if the document contains specific, segregable portions that can be disclosed without prejudice or harm.*

*Indicate below whether or not the funding proposal includes confidential information.*

**No confidential information:** The accredited entity confirms that the funding proposal, including its annexes, may be disclosed in full by the GCF, as no information is being provided in confidence.

**With confidential information:** The accredited entity declares that the funding proposal, including its annexes, may not be disclosed in full by the GCF, as certain information is being provided in confidence. Accordingly, the accredited entity is providing to the Secretariat the following two copies of the funding proposal, including all annexes:

- € full copy for internal use of the GCF in which the confidential portions are marked accordingly, together with an explanatory note regarding the said portions and the corresponding reason for confidentiality under the accredited entity's disclosure policy, and
- € redacted copy for disclosure on the GCF website.

The funding proposal can only be processed upon receipt of the two copies above, if containing confidential information.

## H. ANNEXES

### H.1. Mandatory annexes

- Annex 1 NDA no-objection letter(s) [\(template provided\)](#)
- Annex 2 Feasibility study - and a market study, if applicable
- Annex 3 Economic and/or financial analyses in spreadsheet format
- Annex 4 Detailed budget plan [\(template provided\)](#)
- Annex 5 Implementation timetable including key project/programme milestones [\(template provided\)](#)
- Annex 6 E&S document corresponding to the E&S category (A, B or C; or I1, I2 or I3):  
[\(ESS disclosure form provided\)](#)
  - Environmental and Social Impact Assessment (ESIA) or
  - Environmental and Social Management Plan (ESMP) or
  - Environmental and Social Management System (ESMS)
  - Others (please specify – e.g. Resettlement Action Plan, Resettlement Policy Framework, Indigenous People’s Plan, Land Acquisition Plan, etc.)
- Annex 7 Summary of consultations and stakeholder engagement plan
- Annex 8 Gender assessment and project/programme-level action plan [\(template provided\)](#)
- Annex 9 Legal due diligence (regulation, taxation and insurance)
- Annex 10 Procurement plan [\(template provided\)](#)
- Annex 11 Monitoring and evaluation plan [\(template provided\)](#)
- Annex 12 AE fee request [\(template provided\)](#)
- Annex 13 Co-financing commitment letter, if applicable [\(template provided\)](#)
- Annex 14 Term sheet including a detailed disbursement schedule and, if applicable, repayment schedule

### H.2. Other annexes as applicable

- Annex 15 Evidence of internal approval [\(template provided\)](#)
- Annex 16 Map(s) indicating the location of proposed interventions
- Annex 17 Multi-country project/programme information [\(template provided\)](#)
- Annex 18 Appraisal, due diligence or evaluation report for proposals based on up-scaling or replicating a pilot project
- Annex 19 Procedures for controlling procurement by third parties or executing entities undertaking projects financed by the entity
- Annex 20 First level AML/CFT (KYC) assessment
- Annex 21 Governance Oversight Guideline (previously Operations manual)
- Annex 22 Loan eligibility requirements table by component
- Annex 23 RFI for MGFC Management and Technical Advisory services
- Annex 24 Green Investment Group (GIG) “Setting up the Mongolia Green Finance Corporation” report under PPF activities

|                                     |          |                                                                                        |
|-------------------------------------|----------|----------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> | Annex 25 | MGFC Charter                                                                           |
| <input checked="" type="checkbox"/> | Annex 26 | MGFC Credit Policies and Procedures                                                    |
| <input checked="" type="checkbox"/> | Annex 27 | MGFC Green Investment Policy                                                           |
| <input checked="" type="checkbox"/> | Annex 28 | MGFC Shareholders Agreement                                                            |
| <input checked="" type="checkbox"/> | Annex 29 | MGFC On-Lending Agreement                                                              |
| <input checked="" type="checkbox"/> | Annex 30 | Selection Criteria for BOD and CEO                                                     |
| <input checked="" type="checkbox"/> | Annex 31 | MGFC Company Bylaw                                                                     |
| <input checked="" type="checkbox"/> | Annex 32 | MGFC Policy on Preventing Money Laundering and Terrorism Financing                     |
| <input checked="" type="checkbox"/> | Annex 33 | MGFC Anti-Corruption Policy                                                            |
| <input checked="" type="checkbox"/> | Annex 34 | MGFC Code of Conduct                                                                   |
| <input checked="" type="checkbox"/> | Annex 35 | MGFC Compliance Management Policy                                                      |
| <input checked="" type="checkbox"/> | Annex 36 | MGFC E&S Policy                                                                        |
| <input checked="" type="checkbox"/> | Annex 37 | MGFC Financial Risk Management Policy                                                  |
| <input checked="" type="checkbox"/> | Annex 38 | MGFC Gender Policy                                                                     |
| <input checked="" type="checkbox"/> | Annex 39 | MGFC Information Disclosure Policy                                                     |
| <input checked="" type="checkbox"/> | Annex 40 | MGFC Sexual Harassment Policy                                                          |
| <input checked="" type="checkbox"/> | Annex 41 | MGFC Policy on the Protection of Whistleblowers and Witnesses                          |
| <input checked="" type="checkbox"/> | Annex 42 | MGFC Grievance Procedure                                                               |
| <input checked="" type="checkbox"/> | Annex 43 | MGFC Green Impact Framework                                                            |
| <input checked="" type="checkbox"/> | Annex 44 | MGFC Subscription Agreement                                                            |
| <input checked="" type="checkbox"/> | Annex 45 | MGFC Incorporation Document (Mongolian)                                                |
| <input checked="" type="checkbox"/> | Annex 46 | MGFC Incorporation Document (English Translation)                                      |
| <input checked="" type="checkbox"/> | Annex 47 | Participation Agreement                                                                |
| <input checked="" type="checkbox"/> | Annex 48 | MGFC Procedure on Prevention of Money Laundering and Terrorist Financing               |
| <input checked="" type="checkbox"/> | Annex 49 | MGFC Credit Procedure                                                                  |
| <input checked="" type="checkbox"/> | Annex 50 | CVs of appointed Board of Directors, Executive Management Team, and Advisory Committee |

*\* Please note that a funding proposal will be considered complete only upon receipt of all the applicable supporting documents.*