



**GREEN  
CLIMATE  
FUND**

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**26 September 2022**

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# Consideration of accreditation proposals – Addendum VI

## Re-accreditation assessment of RAPL037

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### **Summary**

This document contains the re-accreditation assessment conducted by the Secretariat and the Accreditation Panel in accordance with decision B.24/13, and the recommendation by the Accreditation Panel for re-accreditation of re-accreditation applicant 037 (RAPL037), XacBank LLC (XacBank), based in Mongolia, for the second accreditation term.

## I. Introduction

1. XacBank LLC (XacBank) is a private sector entity headquartered in Mongolia. As one of the major banks in the country, XacBank has a mission to contribute to socioeconomic development by providing access to comprehensive financial services and products to all clients, including micro, small, and medium-sized enterprises (MSMEs) and climate-vulnerable and rural communities. XacBank has invested in green, sustainable development and climate projects with a focus on energy efficiency, renewable energy and sustainability, with the objective to help Mongolia to mitigate and adapt to the impacts of climate change and build a resilient and sustainable national economy.

2. XacBank was accredited by the Board on 14 October 2016 in decision B.14/10, paragraph (b), for the following parameters, as recommended by the Accreditation Panel (AP), under the fit-for-purpose approach of the GCF:

- (a) **Access modality:** direct access, national. The national designated authority (NDA) or focal point nomination from Mongolia remains in effect for the re-accreditation application;
- (b) **Track:** normal track;
- (c) **Maximum size of an individual project or activity within a programme:** small;<sup>1</sup>
- (d) **Fiduciary functions:**<sup>2</sup>
  - (i) Basic fiduciary standards;
  - (ii) Specialized fiduciary standard for project management;
  - (iii) Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees);
- (e) **Maximum environmental and social risk category:** medium risk (category B/intermediation 2 (I-2));<sup>3</sup> and
- (f) **Indicative results areas for intended projects/programmes with GCF:**
  - (i) Energy generation and access;
  - (ii) Transport;
  - (iii) Buildings, cities, industries and appliances;
  - (iv) Forests and land use;
  - (v) Health, food, and water security;
  - (vi) Livelihoods of people and communities;
  - (vii) Infrastructure and built environment; and

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<sup>1</sup> As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), “small” is defined as “maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 10 million and up to and including USD 50 million for an individual project or an activity within a programme.”

<sup>2</sup> Decision B.07/02.

<sup>3</sup> As per annex I to decision B.07/02 (annex I to document GCF/B.07/11), category B is defined as “Activities with potential mild adverse environmental and/or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures,” and intermediation 2 is defined as “When an intermediary’s existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally-site specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented.”

(viii) Private and cross-cutting types of projects/programmes.

3. XacBank signed its accreditation master agreement (AMA) with GCF on 14 December 2016, which became effective on 17 February 2017. With the AMA coming to effect, the first accreditation term of the accredited entity (AE) was from 17 February 2017 to 16 February 2022. Owing to the coronavirus disease 19 (COVID-19) pandemic and in line with decision B.26/01, paragraph (h), the AE requested, and was issued, an extension in the deadline to submit its re-accreditation application to GCF from 28 July 2021 to 17 February 2022. The AE submitted its application for re-accreditation to GCF via the digital accreditation platform on 13 February 2022. Accreditation fees were not applicable since the AE is seeking re-accreditation for the same accreditation scope for which it was previously accredited; thus, the Stage I institutional assessment and completeness check commenced upon submission of the re-accreditation application. Stage I was completed on 26 May 2022 and the applicant was progressed to the Stage II (Step 1) accreditation review by the AP, which has been concluded with the publication of this assessment.

4. The AE has applied for the same accreditation scope for which it was previously accredited, and has updated the indicative results areas for the projects/programmes it intends to submit to GCF as follows:

(a) **Indicative results areas for intended projects/programmes with GCF:**

- (i) Energy generation and access;
- (ii) Low-emission transport;
- (iii) Buildings, cities, industries and appliances;
- (iv) Forestry and land use;
- (v) Health, well-being, and food and water security;
- (vi) Most vulnerable people and communities;
- (vii) Infrastructure and built environment; and
- (viii) Private and cross-cutting types of projects/programmes.

## II. Stage I institutional assessment and completeness check

5. The AE applied and was assessed by the Secretariat during stage I under the normal track re-accreditation process in accordance with the GCF policies and standards to the extent applicable to accreditation below:

- (a) “Updated Strategic Plan for the Green Climate Fund: 2020–2023” (decision B.27/06);
- (b) “Matters related to the accreditation framework” regarding the re-accreditation process (decisions B.24/13 and B.26/01);
- (c) “Guiding Framework and Procedures for Accrediting National, Regional and International Implementing Entities and Intermediaries, Including the Fund’s Fiduciary Principles and Standards and Environmental and Social Safeguards” (decision B.07/02);
- (d) “Guidelines for the Operationalization of the Fit-for-purpose Accreditation Approach” (decision B.08/02);
- (e) “Policy on Prohibited Practices” (decision B.22/19);
- (f) “Anti-Money Laundering and Countering the Financing of Terrorism Policy” (AML/CFT Policy) (decision B.18/10);

- (g) “Policy on the Protection of Whistleblowers and Witnesses” (decision B.BM-2018/21);
- (h) “Environmental and Social Management System: Environmental and Social Policy” (decision B.19/10);
- (i) “Revised Environmental and Social Policy” (decision B.BM-2021/18);
- (j) “Comprehensive Information Disclosure Policy of the Fund” (decision B.12/35) regarding the disclosure of environmental and social (E&S) information;
- (k) “Updated Gender Policy and Gender Action Plan 2020–2023” (decision B.24/12); and
- (l) “Evaluation Policy”<sup>4</sup> (decision B.BM 2021/07).

## 2.1 Legal status, registration, permits and licences

6. The AE provided documents on its establishment and licences to operate, where relevant, as a part of the application. The AE confirmed that there had been no change in its legal status or licences to operate since the original accreditation application.

7. As indicated in paragraph 3 above, the AE and GCF entered into the AMA for the AE’s first accreditation term from from 17 February 2017 (date of AMA effectiveness) to 16 February 2022. Although the AE’s first accreditation term lapsed on 17 February 2022, the AE submitted its re-accreditation application within the deadline that was extended at the AE’s request from six months prior to the end of the accreditation term (i.e., 16 August 2021) until the end of the accreditation term. As the AE has sought re-accreditation prior to the end of its accreditation term, it shall remain designated as an AE during the period between its first and, if re-accredited and having a signed and effective amended and restated AMA, second accreditation terms.

8. If the Board approves the AE’s re-accreditation, GCF and the AE will amend and restate the AMA. The amended and restated AMA will set out the terms and conditions of the re-accreditation, including but not limited to (i) the scope of the AE’s re-accreditation; (ii) any conditions of re-accreditation based on the AP assessment of the AE against the GCF standards and policies listed in paragraph 36 below; and (iii) reflection of the GCF policies and standards adopted by the Board in effect as of the date of the amended and restated AMA. If the Board approves the AE’s re-accreditation, the AE’s second accreditation term will commence on the date of the effectiveness of the amended and restated AMA.

9. The AE confirmed at the time of publication of this recommendation that it is willing to engage with GCF on negotiating the amended and restated AMA and that it will provide the necessary resources to review the draft amended and restated AMA.

## 2.2 Accredited entity performance in contributing to GCF programming results

### 2.2.1 **Approved GCF projects under implementation and national designated authority participatory monitoring**

10. The XacBank portfolio includes four approved funded activities with GCF financing of USD 3.5 million in grants, USD 57.1 million in loans, USD 4.6 million in equity, and co-financing at USD 83.4 million. These are FP028 titled “MSME Business Loan Program for GHG Emission

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<sup>4</sup> Due to the timing of the closure of the Stage I review and the Evaluation Policy having come into effect in May 2022, further review of the applicant against the evaluation systems required in so far as they relate to (re)accreditation is undertaken by the AP during Stage II (Step 1).

Reduction”, which was approved as a private sector project at the fifteenth meeting of the Board (B.15) in December 2016; FP046 titled “Renewable Energy Program #1 - Solar”, which was approved as a private sector project at B.18 in October 2017; SAP004 titled “Energy Efficient Consumption Loan Programme”, which was approved as a private sector project at B.21 in October 2018; and FP153 titled “Mongolia Green Finance Corporation”, which was approved as a private sector project at B.27 in November 2020. FP028 and FP046 have been fully disbursed, while GCF has disbursed USD 2 million of the USD 10 million for SAP004. The funded activity agreement (FAA) for FP153 is still under negotiation, and given that XacBank’s accreditation lapsed as of 17 February 2022, the FAA cannot be executed until XacBank is re-accredited by the Board and the restated and amended AMA for the second accreditation term is made effective.

11. All three projects under implementation, FP028, FP046, SAP004, are focused on mitigation activities in Mongolia and use a combination of grants and loans. XacBank’s portfolio achieved FAA effectiveness in all of its projects within two months after signature. FP028 achieved effectiveness within one week, FP046 within two months and SAP004 within one month. They have total funding of USD 100 million, with GCF funding amounting to USD 39 million. About USD 31 million has been disbursed from the GCF Board-approved funding amount, which accounts for 79 per cent of the disbursed GCF funds for all projects under implementation. In particular, FP028 and FP046 have been fully disbursed, both of which are coming close to project completion. Below are detailed descriptions of the project implementation status for each project.

12. FP028 provides loans to Mongolian enterprises investing in energy efficiency and renewable energy projects. GCF’s USD 20 million contribution is blended with other financial sources to fund low-carbon projects. This is to help Mongolian enterprises adopt enduring, low-carbon business models and help alleviate the current prevalence of high financing costs and relatively short-term loan periods. With its focus on gender equity, at least half of the financial support will go towards women-led MSMEs.

13. The project made progress in MSME loan disbursement, and the disbursement target of the MSME programme was on track with USD 3.2 million disbursed through a total of 44 loans since 1 January 2020. However, some grant activities were delayed due to the restrictions imposed by the Government of Mongolia regarding the outbreak of the COVID-19 pandemic. From the GCF facility XacBank disbursed a total of 20 loans to MSMEs with a portfolio of USD 1.5 million. Gender-disaggregated data shows that 77.7 per cent of the total distributed loans in the GCF portion (amounting to USD 1.18 million) were distributed to women-led enterprises. The programme’s midterm emission reduction target is 597,161.5 tonnes of carbon dioxide equivalent (tCO<sub>2</sub>eq), and in 2020 the programme reached 995,267 tCO<sub>2</sub>eq (the cumulative lifetime reductions of projects financed from 2017 until the end of 2020).

14. FP046 finances a 10 megawatt (MW) solar photovoltaic (PV) power plant to support Mongolia’s renewable energy transition to achieve the country’s commitment to supply 30 per cent of the country’s energy through renewable sources by 2030 as part of its NDC targets. However, renewable energy investments in the country are limited by barriers to finance, including high interest rates and prohibitively short tenors, which make renewable projects more expensive than coal-fired power plants. The project will enable the development, construction, commissioning and operation of a 10 MW solar power plant, which will be the second large-scale solar PV power plant in the country.

15. The Sumber Solar Power Plant has maintained consistent operations throughout 2020 and supplied 15,838 megawatt-hours of electricity to the central grid during the year, three per cent higher than the target annual electricity supply planned in the funding proposal. This amount of renewable energy generated during the year mitigated an estimated 13,795 tCO<sub>2</sub>eq of greenhouse gas (GHG) emissions and saved 160,000 tonnes of water. One major event that occurred at the end of 2020 was the full repayment of the project loan extended by XacBank as

a result of ESB Solar Energy refinancing the existing project loan with a lower-interest arrangement provided by their equity co-investor. This arrangement resulted in the early completion of XacBank's project loan period, which was initially planned to last until 2028. The project is in the process of finalizing the necessary reporting requirements and reflow of unused funds.

16. SAP004 will provide loans for energy-efficient heating appliances and housing products, with heating appliances certified to achieve at least a 20 per cent reduction in energy usage. This innovative project aims at increasing consumer adoption of energy efficient products like heating appliances, improved insulation and energy-efficient housing to achieve at least a 20 per cent reduction in energy usage. It also has great potential to make an impact on Mongolia's largest environmental and social problem: air pollution resulting from coal burning in stoves in the ger districts throughout the extended winter season. By giving residents access to lower-cost financing for energy-efficient products, the Energy Efficient Consumption Loan Programme can have a paradigm-shifting effect on the Mongolian uptake of green technology at the household level.

17. The energy-efficient housing component marks the first green mortgage to finance energy-efficient houses in Mongolia. The new loan programme required extensive awareness-raising and flexible terms in the financing agreement, which ensured the proposed energy savings for the lender. The social media campaign of the energy-efficient housing reached over 40,000 viewers and helped XacBank organize in-person tours of the model energy-efficient houses. Through the awareness raising campaign, potential lenders were introduced to the financial and environmental benefits of investing in an energy-efficient house. During the pandemic, the target consumers (middle and lower-income families in the ger districts) were the most sensitive group to the effects of the economic recession negatively affecting loan disbursements for subcomponents and the implementation of some grant activities. The consumption loan policy set out by Bank of Mongolia remains a challenge through the high debt-to-income ratio and a very limited income verification process that keeps small and medium-sized business owners from accessing prospective financing of energy-efficient solutions. In spite of the above challenges, XacBank continued its broad awareness-raising efforts throughout the year (despite the heavy media traffic on COVID-19) and eased loan requirements from XacBank's side to increase the accessibility of energy-efficient solutions for households in Ulaanbaatar.

18. **Implementation performance and delivery rates:** Despite the COVID-19 pandemic, the disbursement rate and implementation pace remained relatively fast with one of the three projects, FP046, ending its implementation period and entering the process of completing the project, while another project, FP028, is getting close to the end of the implementation. The remaining project is in the relatively early phase of implementation and has achieved considerable progress in awareness-raising, which has informed and attracted potential lenders by demonstrating the benefits of the project.

19. **Reporting timeliness and quality:** All reports have been submitted on time, including continuous updates. Reports submitted are of good quality. Currently, GCF is reviewing the project completion report for FP046.

20. **Fiduciary issues:** As of now, there are no fiduciary issues.

21. **Challenges and risk flags:** The AE reported the following challenges across the portfolio, mostly due to the COVID-19 pandemic, which need to be closely watched:

- (a) The Central Bank's Consumption Loan Policy loan duration remains limited to 30 months, which increases the minimum monthly payment (legal risk);
- (b) The spread of COVID-19, resulting in activities slowdown and transportation difficulties (environmental and/or social risk); and

- (c) The decrease in energy demand due to COVID-19 reduced the monthly purchase of solar energy by the government, leading to reduced monthly revenues for ESB Solar Energy (financial risk).

22. **XacBank as a delivery partner for the GCF Readiness and Preparatory Support Programme:**

In addition to its role as an AE, XacBank is a delivery partner for the GCF Readiness and Preparatory Support Programme (Readiness Programme). Under its Readiness portfolio, it has three grants under current implementation, which are being managed by United Nations Office for Project Services, namely:

- (a) MNG-RS-006: “Strengthening the country coordination and engagement with the Fund and aligning the development of the country’s Nationally Determined Contribution and revision of Country Program with Sustainable Development Goals (SDGs)” ; grant amount: USD 300,000; duration of 18 months;
- (b) MNG-RS-007: “Energy Savings Insurance Model Development”; grant amount: USD 296,300; duration of 24 months; and
- (c) One Project Preparation Facility (PPF) project entitled “Mini-grid/off-grid Solution for Ger Area” (PPF019), which is a cross-cutting project. This PPF provided USD 914,425 in funding and is currently undergoing closure; project duration of 30 months.

23. Overall, there are no major risks or red flags for XacBank’s performance as a Readiness Delivery Partner outside of the impacts of COVID-19.

2.2.2. **Inclusion in the country programme of concept notes, funding proposals and Project Preparation Facility requests**

24. **Country programme/entity work programme:** As XacBank is a national direct access entity, it is not required to develop and submit an entity work programme (EWP) to GCF as long as its priorities are included in the GCF Country Programme. XacBank’s concept note under development for GCF titled “Mini-grid/off-grid Solution for Ger Area” is reflected as a priority in the Mongolia Country Programme, which has been published on the GCF website by the NDA on behalf of the Government of Mongolia.

25. **Concept notes/funding proposals:** XacBank has one concept note in the pipeline titled “Mini-grid/off-grid Solution for Ger Area” (USD 40 million), as mentioned above. The funding proposal is currently being developed using PPF funds. XacBank proposes the creation of a scalable mini-grid/off-grid renewable energy distribution system in the typically coal-reliant ger area outside of Ulaanbaatar. The Private Sector Facility understands that the results of the feasibility study under the PPF caused XacBank to rethink the business model in a way that is more affordable to the target end users, but XacBank expects to submit the proposal this year shortly after re-accreditation.

2.2.3. **Risk flags incurred by the projects, accredited entity or country during the previous accreditation term**

26. With regard to concentration risk, there are no risk flags. While there are no risk tolerance levels approved by the Board, the Secretariat monitors concentration levels by single Accredited Entity which is currently 0.53% for XacBank. The portfolio concentration risk by single funding proposal is within the tolerance level approved by the Board.

27. Regarding XacBank’s first-level due diligence of funding proposals reviewed, the environmental and social safeguard (ESS) and gender reviews identified issues that the AE is required to address, however these were not fatal flaws. No significant ESS and gender issues have been identified in the annual performance report reviews of the funded activity that is under implementation.

28. Specifically with regard to the integrity risk related to the GCF's AML/CFT Policy and the Policy on Prohibited Practices, the Secretariat is not aware of any relevant risk flags pertaining to engagement with the AE during the current accreditation term. Also, the first level due diligence of funding proposals carried out by XacBank during the reference period has been satisfactory. Furthermore, the Secretariat consulted with the Independent Integrity Unit (IIU) regarding any reports of prohibited practices within its knowledge; the IIU confirmed that it had not received any reports of integrity violations and therefore did not have any reservations with this re-accreditation proposal being presented to the Board for consideration

### 2.3 AE-level reporting on continuing to meet GCF accreditation standards

29. In line with the AMA clause 15.02(c)(i) and 5.03(b)(iv), XacBank has submitted the required AE-level reports throughout its five-year accreditation term. Some of the submissions by the AE were late and extensions were provided by the Secretariat. These include annual self-assessments for calendar years 2017 and 2018, followed by a midterm accreditation review that included the self-assessment for calendar year 2019 and another self-assessment for calendar year 2020. XacBank's re-accreditation application includes the self-assessment for calendar year 2021.

30. In the annual self-assessments, XacBank consistently reported updates and various changes to basic and specialized fiduciary standards as well as ESS (against which the AE was assessed in its original accreditation), all of which the AE reported as having positive impacts or no material impacts on its capabilities to continue to serve in its role as an AE.

31. As detailed in document GCF/B.27/03/Add.02, the AP and the Secretariat reviewed the midterm review report covering calendar year 2019 and found that the AE continued to meet the relevant GCF accreditation standards and obligations as an AE per its AMA with GCF in the context of its accreditation scope.

### 2.4 Overall portfolio of activities of the accredited entity beyond those funded by GCF

32. As per the 2020–2023 Strategic Plan,<sup>5</sup> the re-accreditation process<sup>6</sup> and the monitoring and accountability framework,<sup>7</sup> the Secretariat and the AP are requested to provide an assessment of the extent to which the overall portfolio of activities of the AE, beyond those funded by GCF, has evolved during the accreditation period in order to advance the goal of GCF to promote the paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development.

33. XacBank established the Eco Banking Department (EBD) in 2009, which is a specially dedicated unit to provide environmentally sustainable financial solutions to all communities and businesses in Mongolia. The EBD became the first business unit dedicated to green financing in the Mongolian financial sector. The EBD is the flagship for implementing XacBank's "Planet" portion of its triple-bottom-line mission and operates under the supervision of the Chief Business Banking Officer.

34. XacBank continues to develop its climate-aligned portfolio in cooperation with GCF. The AP reviewed the following information provided by the AE with regard to guiding questions

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<sup>5</sup> Decision B.27/06 and annex VI thereto.

<sup>6</sup> Decision B.24/13 and annex XXVI thereto.

<sup>7</sup> Decision B.11/10 and annex I thereto.

established in the GCF “Methodology for establishing a baseline of greenhouse gas emissions and climate resilience for the portfolio of accredited entities”<sup>8</sup>:

(a) **Guiding question 1: Has the entity established policies or commitments in the short, medium or long term regarding investment in climate change projects?**

- (i) Climate change became one of the six pillars of the entity’s corporate strategy in 2020–2021 and, as stated by its Chief Executive Officer (CEO) in its 2021 Annual Report, XacBank will “continue its commitment to support climate change adaptation and mitigation initiatives through its lending programs for individuals and businesses.” This commitment has been translated into its portfolio: In 2021, climate-related projects accounted for 78 per cent of the entity’s investments;
- (ii) XacBank is guided by and is committed to contributing to the implementation of the Mongolian NDC and its long-term development policy ‘Vision 2050’, which aims to facilitate the country’s green growth. As part of XacBank’s climate change mitigation commitment, it has developed and introduced green loan products with climate change mitigation impact in the Mongolian market. As a result, a total of 2.1 million tonnes of CO<sub>2</sub> savings were generated since 2013;
- (iii) The bank currently has no quantifiable climate target or commitment. However, XacBank has informed the AP that it shall adhere to the “Sustainable Finance Roadmap” issued in 2022 by Mongolian supervisory and regulatory bodies (such as the Bank of Mongolia, the Financial Regulatory Commission and the Mongolian Sustainable Finance Association), which has planned the development of a methodology for Mongolian financial institutions to set emissions reduction targets within the next three–five years. The bank has no direct fossil fuel investments in its portfolio;
- (iv) The AP finds that the AE’s commitments to climate-related investments, as reflected in its 2020–2021 Corporate Strategy, are in line with the 2020–2023 Strategic Plan;

(b) **Guiding question 2: Does the entity receive resources from third parties for the financing of climate projects?**

- (i) XacBank was able to mobilize co-financing from Government Corporate Finance Profession (GCFP), European Bank for Reconstruction and Development (EBRD), Developing World Market (DWM), GERES and Sankou Siki, as well as from the private sector and the Government of Mongolia, in the form of loans, grants and equity. The total USD received by donor, type of finance and project is shown in table 1 below;

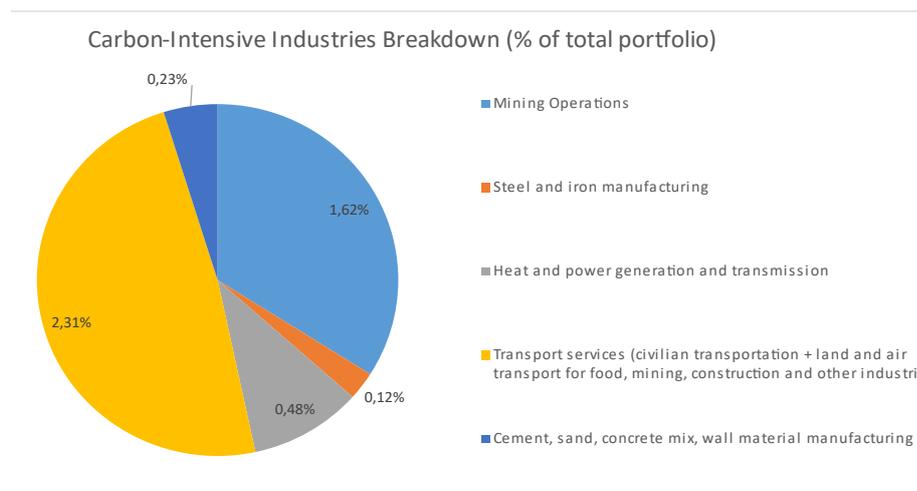
(i) **Table 1. Projects, financing modalities and amount of resources mobilized by the entity**

Total GCF funding (USD)	67,460,725
Total Co-financing excl. XB (USD)	74,406,870
<b>Total financing excl. XB (USD)</b>	<b>141,867,595</b>

<sup>8</sup> Document GCF/B.28/11/Add.02.

- (ii) Total funding received for adaptation and/or mitigation projects in the past five years was USD 141.86 million. A significant portion of it was GCF-funding: USD 67.46 million, or 47.5 per cent of total financing; and
  - (iii) The AP finds that the AE has actively engaged with various national and international partners to mobilize resources from third parties for the financing of climate projects;
- (b) **Guiding question 3: Does the AE calculate and reduce its GHG emissions? (optional)**
- (i) The AE has opted not to answer this question;
- (c) **Guiding question 4: Does the AE evaluate the climate risks of its portfolio? (optional)**
- (i) The AE has opted not to answer this question;
- (d) **Guiding question 5: What are the main sectors of activity of the AE?**
- (i) The sectoral distribution of the portfolio consists of (a) climate-related projects (mitigation); (b) non-climate-related projects and operations; and (c) carbon-intensive projects (energy generation, mining operations, oil and gas exploration and processing, construction including cement production, manufacturing industries such as aluminium, metal and chemicals, and transport);
  - (ii) During the first accreditation period, XacBank has USD 782.16 million, in non-carbon intensive activities. This represents ninety-five (95.33%) of its investments in the period. The remaining - USD 38.35 million or 4.67% of its portfolio - was allocated in carbon-intensive industries, which are detailed below (see figure 1 below). In relation to the total portfolio, 2.31% of the entity's projects related to transport services, whereas 1.62% were investments on mining operations. Other segments such as heat and power generation, cement, sand, concrete mix and wall material manufacturing, and steel and iron manufacturing had received investments but represent less than 1% of the total portfolio. The entity had no direct investments in fossil fuels.

**Figure 1. XacBank portfolio of carbon intensive investments breakdown**



- (iii) The AE's current portfolio comprises 78 per cent of climate-related projects involving investments in renewable energy and energy efficiency, totalling USD 55.45 million. The other 22 per cent of the portfolio is related to non-climate related projects and operations, such as supporting small and medium-sized

enterprises (SMEs) involved in environmental protection and organic farming production. The AE reported no current investment in carbon-intensive industries (0 per cent);

- (iv) The AP concludes that the AE does not invest in fossil fuel-related projects/programmes, and its carbon-intensive investment has declined during this period;

(e) **Guiding question 6: Is the AE investing in mitigation projects/operations?**

- (i) The mitigation projects implemented by XacBank are related to renewable energy (solar PV), energy efficiency (thermal insulation, energy-efficient lighting, and replacement of inefficient equipment), and green transport. XacBank’s total investment in these sectors amounts to USD 55.45 million, and 11.75 megawatts of new renewable energy capacity has been installed (see table 2 below);

**Table 2. Investments in clean energy in the first accreditation period**

Indicator	Amount	Unit
New renewable energy capacity installed (separately for off-grid and on-grid)	11.75	MW
Total investment into renewable energy and energy efficiency projects	50,232,980	USD
Total investment into green transport and mobility	5,220,381	USD

- (ii) XacBank is committed to delivering “dual-sided support” for the Mongolian energy market: On the demand side, it encourages the consumption of products that reduce GHG emissions, save energy and/or utilize energy solutions through accessible financing; on the supply side, it supports the companies producing, selling or adopting solutions that reduce GHG emissions, save energy or utilize renewable energy solutions, by providing concessional loans;
- (iii) As illustrated in figure 2 below, prior to its accreditation, XacBank had invested in two climate mitigation projects that generated around 691.537 tonnes of GHG emission reductions. Post-accreditation, XacBank has increased its portfolio of mitigation projects: four additional loan programmes have been created, and the total mitigation impact has grown by 113 per cent (see figure 2 below). A total of 2.1 million tonnes of CO<sub>2</sub> savings have been generated since 2013 (68 per cent of which was after XacBank’s accreditation).

**Figure 2. Entity's portfolio before and after accreditation by the GCF, by project, in GHG emissions reductions (tonnes of CO<sub>2</sub>eq)**

Baseline (prior to accreditation)

Project	GHG ER
MSME Business Loan Program (2013-2015)	689,328.13
Eco Car Loan (2015)	2,209.59
<b>Total</b>	<b>691,537.72</b>

Post-accreditation ER

Project	GHG ER
FP028: MSME (2016)	63,409.58
FP028: MSME (2017-2021)	1,092,588.00
Eco Car Loan (2016-2019)	306,745.00
SAP004: EECLP (2019-2021)	4,600.00
<b>Total</b>	<b>1,476,306.82</b>

<b>Total Emissions Reductions (Entire Portfolio)</b>	<b>2,167,844.54</b>
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<b>GHG Emission Reduction Increase from Baseline</b>	<b>784,769.10</b>
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ER from Energy Efficiency	1,810,249.16
ER from Renewable Energy	346,421.55
ER from Green Transport	11,173.83

Source:

XacBank Internal Loan Database

Project descriptions provided by borrowers

- (iv) The AP finds AE's investments in climate mitigation projects/programmes to be robust, showing an increasing trend over this period, both in terms of volume invested and GHG emission reductions generated;

(f) **Guiding question 7: Is the AE investing in adaptation projects/operations?**

- (i) The AE has not nor is investing in climate change adaptation activities.

35. The AP concludes that the evidence provided by XacBank for the first accreditation term demonstrates a continuous positive trend of developing climate change mitigation projects. Both the strategy and the trend of activities are aligned with the GCF's mandate and objectives.

### III. Stage II accreditation review assessment

36. The AE applied under the normal track accreditation process. Its application has been assessed by the AP during stage II (step 1) against the standards of GCF in accordance with the re-accreditation requirements to the extent applicable to accreditation identified in paragraph 3 above.

37. As part of this assessment, the AP consulted the AE's website and third-party websites to complement the information provided in the application.

#### 3.1 Fiduciary standards

##### 3.1.1. Basic fiduciary standards: key administrative and financial capacities

38. XacBank did not have any conditions with regard to the basic fiduciary standards on key administrative and financial capacities recommended by the AP for the first accreditation term.

39. The AE and its parent company, TenGer Financial Group, are majority-owned by a diverse range of institutional investors, including International Finance Corporation, EBRD, ORIX Corporation, MercyCorps, Ronoc, each with a maximum ownership interest of 20 per cent. XacBank has been frequently recognized domestically and internationally for its high corporate governance standards and transparency. Governance is vested in its Board, comprised of a diverse set of non-executive and independent directors.

40. Key governance documents include the AE's Code of Corporate Governance, Related Party Transactions Policy and the Board Director Selection and Nomination Policy. The Charter of the Bank includes the procedure and process for nomination, appointment, election, re-election and removal of a director. In addition, the AE's Internal Rules of Procedure determine how the Board conducts its business. It was noted that the AE does not have a standard procedure for deciding board member remuneration, but negotiations take place bilaterally and confidentially.

41. The Board committee structure consists of a Governance, Nomination and Compensation Committee, Risk Management Committee, Bank Credit Committee and Audit Committee (AC). Other committees operating at an executive level include the Assets and Liability Committee, Credit Committee, Human Resources Committee, Information Technology Management Committee and Tender Committee

42. The Governance, Nomination and Compensation Committee oversees corporate governance matters, including formulating and recommending governance principles and policies. The Risk Management Committee is responsible for advising the Board on risk-related issues and governance and establishing a sound system of risk oversight, management and internal control. In addition, the AC reviews the completeness, appropriateness and effectiveness of the internal control system, appoints external auditors and manages the performance of the internal audit function and management's compliance with regulatory financial reporting. The AE's Audit Committee Charter (adopted in 2015) articulates the committee's oversight role, structure and responsibilities and clearly expresses the AC's primary duties in reviewing accounting, internal controls and reporting, which are carried out effectively according to the minutes of several 2022 meetings.

43. The AE's Chief Internal Auditor reports to the Board's AC and oversees the internal audit department, which has overall responsibility for internal control and audits. The Corporate Secretary also serves as the chief governance officer representing XacBank in corporate governance-related matters and ensuring that corporate governance policies and best practices are implemented.

44. The AE's three-year and annual planning processes cascade from the executive to departmental and divisional levels and corresponding departmental and divisional budgets are consolidated for executive and board approval. The AE shared its detailed business plan for 2022, which links its vision and mission to strategic objectives and indicators. XacBank's annual reports, 2020 being the most recently available, points to the fiscal discipline that has led to the recording of a low cost-to-income ratio and a healthy net interest margin as a result, and increased profitability. The Eco-Banking Department's strategy aims to improve social performance transparency and align core business strategies with social investments.
45. The AE's annual financial statements are prepared in accordance with International Financial Reporting Standards and audited by competent external auditors (currently Deloitte) working under International Standards on Auditing. The most recently available 2020 audited financial statements contain an unqualified audit opinion from the AE's auditors. In addition, actions recommended by XacBank's external audits in its management letters and assessments by the national regulator (Bank of Mongolia) were provided. The 2020 Deloitte Management Letter included a follow-up on the prior year's recommendations; however, recommendations were not flagged in terms of risk/materiality.
46. Xacbank's financial management systems, policies and processes include the clear segregation of approval and disbursement processes. Flexcube (Oracle) is used for financial processing and information management, and an in-house system is used for management reporting. A list of available financial reports and stakeholders that use them was shared. Key policies related to financial management are the Credit Risk Management Policy, Credit Authority and Loan Approval Limits, Bank Lending Guidelines and Specialised Lending Procedures.
47. The AE's Internal Audit Division Charter sets out principles of integrity, objectivity and confidentiality (in accordance with the Internal Auditor's Code of Ethics), and an Audit Policy and Audit Manual frame the approach and methodology of the Internal Audit Division.
48. The Chief Internal Auditor works across the AE's parent company/group with a qualified team of auditors working under clear job descriptions and each member having a minimum of five years of audit experience. The Internal Audit Division adheres to risk-based internal audit principles and is guided by international standards developed by the Institute of Internal Auditors. Annual audit plans and follow-up status reports are shared with management and the AC. Audit findings and recommendations, and their subsequent tracking are well presented and reviewed by management and the AC. A complete list of internal audit recommendations from the past three years was also provided along with their status to December 2021.
49. In terms of evaluating the effectiveness of the internal audit function, the Chief Internal Auditor is assessed against clear key performance indicators agreed upon at the AC level, and the Internal Audit Division is evaluated for its compliance with international standards. The Internal Audit Division completes self-assessments and is subject to periodic internal and external quality assessments. The 2020 self-assessment report highlights the need to commission an independent external review (typically at least every five years), and the AE is understood to be arranging this.
50. The AE's well-developed internal control framework, outlined in the corporate governance section of its annual reports, includes functions that make up its internal control framework, internal audit, risk management and the AE's various governance oversight committees.
51. Procurement principles are published on the AE's website, in its Procurement Procedure Summary and in a summary of its code of conduct and standards for suppliers. Tenders are posted under "News" on the AE's website, as is a transparent summary table of tenders, successful bidders and contract values. Case studies of several recent full procurement

processes were shared, providing confidence in the AE's continuing transparent and fair procurement policies and processes. Generally, the AE conducts procurement under its own policy and procedures; and in exceptional cases where GCF-funded procurement is carried out by the executing entities (EEs), the AE cascades its own procurement policy. In this respect, external project audit reports have encompassed reviews of procurement at the EE level.

52. The AE indicated that its procurement policies and procedure are approved by the Bank of Mongolia and meet Mongolian procurement procedure standards, therefore conforming with the requirements for government-funded purchases. The procurement department is also regularly audited by the AE's Internal Audit Division and improved from an "unsatisfactory" rating in 2016 to "generally satisfactory" in 2020. In addition, it is understood from internal audit follow-up reports that the AE's Procurement Procedure and Vendor Policy is undergoing a periodic review, factoring in recommendations from internal audits.

53. The AP finds that the AE's policies, procedures and capacity, supported by evidence of its track record, fully meet the GCF basic fiduciary standards on key administrative and financial capacities.

### 3.1.2. **Basic fiduciary standards: transparency and accountability**

54. XacBank has fulfilled and closed conditions with regard to basic fiduciary standards on transparency and accountability recommended by the AP and approved by the Board in its decision to accredit the AE for its first accreditation term.<sup>9</sup>

55. The AE indicated that it endorses the United Nations Global Compact and has aligned with and promotes various other corporate social responsibility initiatives, principles and standards. The AE's group-level Code of Conduct and Conflict of Interest Policy for Directors and Employees was adopted in 2011 and incorporates sections on ethical conduct and standards, its code of conduct, conflicts of interest, financial interests, integrity and confidentiality, and mentions a procedure for complaints. XacBank's executive tone and zero-tolerance stance on prohibited practices are evident in its Annual Reports regarding regulatory and industry compliance, disclosures, accountability and transparency. The AE's policies articulate the process for disclosing and handling potential, perceived and real conflicts of interest. A summary of the AE's ethics and conflict of interest provisions is available on the AE's website; however, the full policies are not published, and the AE indicated that it is amenable to doing so.

56. Board directors and executive management members file Annual Disclosure Statements and examples provided of contractual code of conduct and conflict of interest disclosure statements and examples of disclosure of related party transaction templates reflect the AE's track record in this area.

57. The AE's Whistleblowing Policy encourages proactive, confidential reporting; however, the policy is internally focused and not referred to specifically or published on the AE's website. The AE's website incorporates a Complaints and Feedback page accessed from the "Contact Us" link on the home page and invites the public to report "complaints regarding our products and services, grievances related to the projects implemented by XacBank, or any other irregularities and misconduct", offering a 24-hour contact line, a generic email address and an online complaint form. The online form requests limited information, namely the individual's location, name, email address and general feedback; however, a gap exists compared with the GCF Policy on the Protection of Whistleblowers and Witnesses: anonymous reporting is not actively encouraged or enabled under the AE's current systems and processes.

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<sup>9</sup> Refer to document GCF/B.16/13.

58. An internal flowchart document describes the complaint handling/whistleblowing process, and an extract of the AE's simple Whistleblowing Policy includes important policies and processes; however, it does not address the protection of whistle-blowers and witnesses, a gap that the AE can address through more articulate policy provisions and communication.

59. The Internal Audit Division independently investigates reports related to fraud, bribery and corruption at Xacbank according to the terms of reference in the internal audit charter and the provisions of its Investigation Procedure. The terms of reference for investigations and standardized guidelines for processing cases to the extent required under the GCF fiduciary standards and principles of public disclosure are not currently available on the AE's website. The AE can address this gap by publishing accessible information from its investigation procedures on its website.

60. The AE shared trend reports on complaints, a file containing recently handled cases (prepared for management) and an informative report indicating trends based on the categorization of complaints and their internal "tolerance level".

61. Regarding the AE's systems, policies, procedures and processes to prevent money laundering and combat the financing of terrorism, detailed 'know-your-customer' procedures, annual monitoring reports and extracts from an on-site inspection report by the regulatory bank (Bank of Mongolia) demonstrate robust procedures. As anticipated in a major national bank, the AE handles significant electronic transaction volumes. All transactions are captured in the financial management system and are subject to limits and weekly monitoring. In addition, XacBank subscribes to secure and traceable money transfer services such as Mastercard, Visa, the Society for Worldwide Interbank Financial Telecommunication (SWIFT) network and Western Union money transfer services.

62. The AP finds that the AE's policies, procedures, and capacity meet the basic fiduciary standards on transparency and accountability and, to the extent applicable to accreditation, the GCF AML/CFT Policy.<sup>10</sup> However, the AE only partially meets, to the extent applicable to accreditation, the GCF Policy on Prohibited Practices<sup>11</sup> and the GCF Policy on the Protection of Whistle-blowers and Witnesses.<sup>12</sup> The relevant gaps are identified in paragraphs 57 to 59 and are reflected by the corresponding condition for re-accreditation in section 4.2.

### 3.1.3. **Specialized fiduciary standard for project management**

63. XacBank has fulfilled and closed conditions with regard to the specialized fiduciary standard for project management recommended by the AP and approved by the Board in its decision to accredit the AE for the first accreditation term.<sup>13</sup>

64. During the accreditation period, in line with the AP's original accreditation assessment, the AE strengthened its project management processes and procedures in the areas of project implementation, project closure and independent evaluation, and demonstrated the effectiveness of said systems.

65. The AE's EBD identifies and appraises climate change projects using its General Lending Procedure, Specialised Lending Procedure and Lending Operations Manual, and the AE's Project Preparation Procedure Summary for Green Loan Projects incorporates robust procedures. The AE's appraisals are largely for on-lending via loans, and in the example of a loan to beneficiary entity reviewed by the AP, the background analysis, financial statement analysis and risk analysis are robust and well presented. For green loans, creditworthiness checks are followed by preliminary technical eligibility checks and detailed project assessments, including site

<sup>10</sup> Decision B.18/10 and annex XIV thereto.

<sup>11</sup> Decision B.22/19 and annex XIV thereto.

<sup>12</sup> Decision B.21/25 and annex II thereto.

<sup>13</sup> Refer to document GCF/B.16/13.

visits, after which the loan appraisal and credit committee approval take place. Technical, fiduciary and legal oversight is evident in the review procedures and case studies.

66. During implementation, the AE's standard Project Management Procedure and Resolution and the AE's Budget Guideline are the primary tools used to provide comprehensive procedures and templates for project management, from business case analysis and project planning to reporting, including lessons learned and evaluation. For GCF-funded projects, the AE adopts the GCF's policies and templates to develop project proposals and for the periodic reporting of project activities. Examples of a range of feasibility plans, implementation plans, assessment and monitoring reports, and final project reports provide confidence in the AE's application of its procedures, processes and templates.

67. Commensurate with the AE's sound systems and processes and as noted in the summary performance assessment by the Secretariat, the AE has developed a strong track record in implementing GCF-funded projects. Regarding its current FAAs, namely FP028, FP046 and SAP004, all of which are mitigation projects comprised of grants and loans, satisfactory implementation rates and timely, quality reporting, and the communication of updates were demonstrated, notwithstanding recent pandemic-related disruptions to operations and activities. Improved experience with project closure, which had been highlighted in the AE's now fulfilled accreditation conditions, was shared by way of a completion report for a PPF funding grant (MMG-PPF-019).

68. Regarding the publication of project information such as progress reports, beneficiary information and monitoring and evaluation reports, the AE's website includes important project information on its three GCF-funded projects; however, reports submitted to the GCF, for example, monitoring and evaluation reports, are not made available nor are links to the project documents on the GCF website. The AE's Information Disclosure Policy balances banking sector confidentiality requirements, which are incorporated in the AE's AMA, with transparency and public disclosure imperatives.

69. The AE's Internal Audit Division is responsible for internal independent project monitoring and evaluation. In addition to the unit's charter and manual, as described in paragraph 47 above, evaluation procedures are covered in audit guidelines (Audit Guideline Eco Banking 2018) and describe the "process of certification for XacBank's eco-product development and management activities to evaluate the full implementation of the internal control system, and to provide recommendations for improving operations". Based on the terms of reference and sampled evaluation reports for FP028, the AE's evaluation function, performed by its internal audit function, is satisfactorily rigorous, objective and independent.

70. External evaluations are outsourced through competitive tender processes to consultants or firms. An example of terms of reference for FP028 and FP046 was presented, showing clear terms of reference to evaluate the effectiveness and efficiency of projects, coherence in climate finance delivery with other multilateral entities, gender equity, country ownership, innovativeness in results areas, replication and scalability, and unexpected results.

71. Project inception risk assessments, such as the track record example provided for the AE's Eco Product Distribution Program, are reviewed by the AE's credit committee to mitigate lending risks. The AE's Credit Risk Management Policy incorporates project-at-risk systems. If projects are identified as risky by the credit committee, follow-up monitoring plans are developed with the client to ensure mitigation. The Credit Committee Decision and Loan Proposals document demonstrates this project's at-risk practices. If regular monitoring reveals an issue within the loan, it may be put on the AE's Loan Watchlist, which requires additional monitoring and evaluation defined within the loan product's procedure. Several samples of at-risk monitoring reports were provided.

72. The AP finds that the AE's policies, procedures and capacity, supported by evidence of its track record, fully meet the specialized fiduciary standard for project management.

3.1.4. **Specialized fiduciary standard for grant award and/or funding allocation mechanisms**

73. The AE did not apply for accreditation for this standard during its first accreditation term and did not apply for an upgrade in its accreditation scope for this standard at this time.

3.1.5. **Specialized fiduciary standard for on-lending and/or blending (for loans, equity and/or guarantees)**

74. XacBank has fulfilled and closed conditions with regard to the specialized fiduciary standard for on-lending and/or blending for loans, equity and/or guarantees recommended by the AP and approved by the Board in its decision to accredit the AE for the first accreditation term.<sup>14</sup>

75. In the AE's original accreditation assessment, the AP noted the AE's broad experience with on-lending and blending funds received from major international and multilateral funding sources, such as the Asian Development Bank, EBRD and International Finance Corporation (IFC), and its growing influence as a major domestic partner for green finance in Mongolia.

76. The AE is fully licensed as a commercial bank by the Bank of Mongolia and has a sophisticated, documented approach to due diligence for assessing organizations seeking financing under the instruments in the AE's portfolio. As a retail commercial bank and implementing entity that finances end borrowers, the AE does not typically act as an intermediary. Instead, specific packages are used for grants, loans and equity, and sampled due diligence reports regarding its on-lending and blending operations show the effective use of and compliance with the existing policies and procedures.

77. XacBank provided a comprehensive list of correspondent banks, international funders and sustainable development partners in its annual reports and demonstrated an ample track record in providing climate finance loans and grants in particular and guarantees to public and private sector entities.

78. The AE shared detailed rating reports from Moody's Investors Service as of March 2021 and Fitch Ratings as of August 2021, both B3/Stable, as they were at the time of accreditation and as compared to Mongolia's sovereign B rating. XacBank's ratings are summarized at <https://www.xacbank.mn/page/ratings>. Due diligence in the form of risk assessments, committee minutes, and associated financial analysis point to the AE's sound and credible investment procedures.

79. The AE's policy, procedural approach, and track record concerning public disclosure of project information on on-lending projects under the AE's Information Disclosure Policy are detailed in paragraph 68 above. The AE's overall portfolio of loans, equity and guarantees for the past three years is presented and annotated in its audited financial statements and supplemented by portfolio and loan portfolio reports shared.

80. The AE has systems and processes in place to enable tracking of funds and shared examples of internal transactional monitoring systems and external audit reports and evaluations. Further, the AE demonstrated its compliance with funder reporting requirements and rigorous internal and external auditing to affirm its ability to channel funds transparently and effectively to beneficiaries. Funds are tracked and traced through the AE's financial management and management information systems.

81. The AP finds that the AE's policies, procedures and capacity, supported by evidence of its track record, fully meet the specialized fiduciary standard for on-lending and/or blending for loans, equity and guarantees.

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<sup>14</sup> Refer to document GCF/B.16/13.

## 3.2 Environmental and social safeguards

82. XacBank did not have any conditions with regard to the GCF interim ESS standards recommended by the AP for the first accreditation term with a maximum accreditation scope of a maximum E&S risk category B/intermediation 2.

### 3.2.1 Environmental and social policy

83. XacBank's Environmental and Social Policy (ESP) has been updated in 2018 to reflect consistency with the GCF accreditation framework and IFC performance standards (PS) 1–8, particularly in terms of risk categorization. XacBank's environmental and social management system (ESMS) is compliant with the ISO 14000 standards, and ESP implementation is reported on regularly to investors and stakeholders.<sup>15</sup>

84. Regarding climate policy, XacBank's green loan projects and programmes are in line with a number of climate policy initiatives and commitments on the part of both the Mongolian Government and the Ulaanbaatar municipality. Also, XacBank's current portfolio does not contain carbon-intensive projects, and its current project portfolio is considered to be 78 per cent climate-related. The AE also confirmed that it has not invested in any fossil fuel portfolio since its accreditation by GCF.

85. Regarding PS 7 on indigenous peoples, XacBank included activities that impinge on the lands owned or claimed under adjudication by indigenous peoples, without full documented consent of such peoples, in its Environmental Management System (EMS) List of Excluded Activities. To implement PS 7, the AE introduced a new Soil and Environment (S&E) assessment format, co-developed with GCF. If a project/loan is likely to have significant impacts on indigenous peoples, it is categorized as A, which the bank will not finance. Furthermore, within the scope of the GCF Readiness and Preparatory Support Programme for Mongolia, a documentary film<sup>16</sup> was made showcasing the current impacts of climate change on herders and Tsaatan tribes (remote minority group of nomadic reindeer herders). The film raises awareness about vital adaptation measures.

86. Regarding the prevention of sexual exploitation and abuse, a harassment-free work environment, non-discrimination, trafficking in persons, and human rights, as they relate to sexual exploitation, abuse and harassment (SEAH), the Bank adopted its Sexual Harassment Policy in 2013, and its implementation has included regular employee trainings. The AP finds that the entity has the capacity to meet the GCF Revised Environmental and Social Policy, particularly regarding the provisions on SEAH.

87. The Compliance Unit ensures the conformance with and execution of the applicant's ESMS policy. The Social and Environmental Manager and the Legal and Compliance Officer work on a full-time basis to coordinate and monitor the implementation of XacBank's Social and Environmental Policy.

88. The AP finds that the AE's ESMS, including its environmental and social policy, supported by evidence of its track record, fully meets the GCF Revised Environmental and Social Policy to the extent applicable to accreditation and GCF interim ESS standards for maximum E&S risk category B projects/programmes with respect to PS 1–8.

### 3.2.2 Identification of environmental and social risks and impacts

89. The AE has a well-developed and comprehensive E&S risk and impacts identification and categorization process that is fully consistent with the GCF interim ESS. The

<sup>15</sup> See <https://www.xacbank.mn/page/esms-on-renewable-energy-program-solar?lang=en>.

<sup>16</sup> See [https://youtu.be/9h\\_PQwyjdHM](https://youtu.be/9h_PQwyjdHM).

risk identification and categorization process is outlined in the applicant's ESMS policy document, which covers all potential E&S risks contained in PS 1–8. The policy is supported by a scoring system and guidance to staff on identifying E&S risks and impacts of the project/programme over the project life. In addition, for XacBank loans to businesses undertaking projects that involve natural resource use and/or mining, project implementers must undertake an additional independent environmental project assessment, as defined within the specialized loan procedures. A sample environmental assessment of a project involving liquified petroleum gas distribution to rural individuals and small businesses, primarily for cooking purposes, has been provided.

90. Evidence of the applicant's experience in conducting E&S risk and impact assessments and categorization was provided in the form of an illustrative list of projects/programmes from the past three years, including the E&S risk category in line with PS 1–8, as well as loan appraisal reports from 2020 and 2021.

91. The AP finds that the AE's system of identification of E&S risks and impacts, supported by evidence of its track record, fully meets the GCF Revised Environmental and Social Policy to the extent applicable to accreditation and the GCF interim ESS standards for maximum E&S risk category B projects/programmes with respect to PS 1–8.

### 3.2.3. **Environmental and social management programme**

92. The applicant's ESMS policy, supported by the risk scoring system, provides guidance for managing mitigation measures and actions stemming from the E&S risk identification process, distinguishing between different categories of risk. E&S risk identification and assessment of investment activities consist of two stages: (a) initial review of the projects by the Loan Officer with regard to the environmental, health and safety requirements of the national legislation, and the applicant's exclusion list of activities contained in its ESMS policy; and (b) E&S assessment for further compliance with PS 1–8 and determination of the grade of the risks and the risk category by the Compliance Officer.

93. As evidence for the implementation of the policy, the applicant provided examples of the E&S assessment and annual monitoring reports for the investment activities, where medium (category B/I-2) E&S risks were identified, corresponding corrective action plans were developed and mitigation measures were undertaken. XacBank's scoring system includes E&S indicators that are relevant to monitoring overall E&S performance.

94. For an oversight mechanism that verifies the overall performance of the ESMS at the institutional level, XacBank seeks auditing from external firms to improve impact and compliance. An ESMS review commissioned by GCF in 2018 was provided. Furthermore, XacBank has been subject to the Mongolian Sustainable Finance Association's annual rating on sustainable practices, a process that also evaluates ESMS performance.

95. The AP finds that the AE's E&S management programme, supported by evidence of its track record, fully meets the GCF Revised Environmental and Social Policy to the extent applicable to accreditation and GCF interim ESS standards for maximum E&S risk category B projects/programmes with respect to PS 1–8.

### 3.2.4. **Monitoring and review**

96. The applicant has established procedures for E&S assessment and monitoring processes for all business loans and microloans provided to its clients. The applicant undertakes a quarterly survey for branches to ensure screening of environmental and social risks. The supporting documentation provided includes samples of the reporting sheets from monthly and quarterly updates to final project assessments for environmental projects. The compliance team

also compiles and provides E&S performance reports on a regular basis to the applicant's investors, board of directors and partner institutions.

97. The E&S monitoring and reporting procedure describes the roles and responsibilities of the dedicated committees and staff conducting the initial assessment and regular monitoring and reporting on the loans approved. The dedicated regulatory bodies include the credit committee, the compliance team headed by the Compliance Officer, the sustainability team, the EBD, the Chief Risk Officer and the E&S Manager. The compliance team ensures overall compliance of the applicant's business activities with national environmental legislation and bilateral agreements with investors and shareholders, and also with internationally recognized environmental norms and standards.

98. Suitable evidence related to monitoring and review has been provided by the AE (samples of independent evaluation reports for 2 category B projects in the energy sector).

99. The AP finds that the AE's system of E&S-related monitoring and review, supported by evidence of its track record, fully meets the GCF Revised Environmental and Social Policy to the extent applicable to accreditation and GCF interim ESS standards for maximum E&S risk category B projects/programmes with respect to PS 1–8.

### 3.2.5. **External communications, consultations, information disclosure and grievance redress mechanism at the institutional level**

100. Four policies and procedures guide the AE's external communications, including manuals for customer service. Grievances from stakeholders and potentially affected communities and households are received by XacBank through dedicated channels, including a dedicated phone line, live chat system, digital feedback section<sup>17</sup> on the website, as well as an email address. After the receipt of any complaints, they are to be handled in accordance with XacBank's internal policies and procedures, including, but not limited to, the investigation procedure, which is a step-by-step outline of the process of receiving grievances, categorizing them, investigating the case, resolving complaints and disputing settlements, as well as the appropriate corrective actions to be taken.

101. Complaints received are managed by the Customer Contact Center, and any complaints or grievances received in relation to GCF-funded projects are transferred to the EBD for resolution. The curriculum vitae of the Compliance Unit staff responsible for the "grievance" show the skills and experience needed to manage the grievance redress mechanism (GRM) function. The independent Internal Audit division secures independent oversight of the GRM by inspecting compliance with procedures and resolution of complaints.

102. The applicant has provided a copy of its registry of inquiries and complaints, including those received between 2019 and 2021. The AE reported that no E&S-related complaints were received in the past three years. The AE is committed to making this register public, as relevant E&S are received.

103. XacBank has well-established processes for engagement with relevant stakeholders as well as civil authorities so as to ensure ESS compliance of projects. These processes are disclosed publicly at <https://www.xacbank.mn/page/esms>. Also, the track record of applying the public consultation and disclosure policy at the institution and project levels has been provided for GCF-funded projects, and a summary of each is available at the above link. Specific attention is given to gender-sensitive stakeholder engagement. Also, the applicant provided a track record of using and operating the GRM and information inquiry mechanism (at the institutional and project levels).

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<sup>17</sup> See <http://www.xacbank.mn/en/home/contact>.

104. The AP finds that the AE's system of external communications, consultations, information disclosure and GRM, supported by evidence of its track record, fully meets the GCF Revised Environmental and Social Policy, to the extent applicable to accreditation, the GCF interim ESS standards and GCF Information Disclosure Policy regarding E&S information disclosure requirements for maximum E&S risk category B projects/programmes with respect to PS 1–8.

#### 3.2.6. **Organizational capacity and competency**

105. The applicant provided its organizational structure, which mandates the Compliance Unit to ensure the overall compliance of XacBank's business activities with national and international environmental norms and standards. This team consists of the Head Compliance Officer and the SEMS Coordinator, both of whom are supervised by the Chief Risk Officer (CRO). The CRO reports directly to the CEO. The applicant explained that E&S information is regularly exchanged between the E&S unit and departments managing investments, credit and project operations and provided evidence of these communications.

106. The curriculum vitae of the two officers in charge of SEMS implementation in the Compliance Unit show the skills and experience necessary to perform the E&S function. The entity also provided evidence that staff have attended relevant E&S training in the past three years.

107. All employees related to the loan process and other processes such as Procurement receive regular trainings and workshops in applying E&S principles and procedures. The applicant provided evidence of its track record of E&S trainings and workshops.

108. The AP finds that the AE's organizational capacity and competency to implement the environmental and social management system, supported by evidence of its track record, fully meet the GCF Revised Environmental and Social Policy, to the extent applicable to accreditation, and GCF interim ESS standards for maximum E&S risk category B projects/programmes with respect to PS 1–8.

### 3.3 Gender

109. XacBank did not have any conditions with regards to gender recommended by the AP for the first accreditation term.

110. The applicant has established a set of stand-alone procedures and practices that regulate gender-specific issues. The applicant's approach towards gender mainstreaming is fully consistent with the principles in the GCF Gender Policy.

111. XacBank's settlement committee is responsible for overseeing the implementation and disputes concerning gender policies. Evidence of the experience and competency of staff managing gender-related matters was provided and found sufficient.

112. XacBank has provided evidence demonstrating that it implements gender equality at all levels of operation, from staff composition, promotion, compensation, working conditions and in providing its main banking services to both men and women. In order to ensure gender equality and support women the Banks's SEMS policy includes Increased lending to women borrowers, gender sensitive outreach training to staff on servicing women customers and borrowers, maintaining a sex-disaggregated customer data bases as well as analysis of sex-differentiated performance. As of December 31st, 2021 57.3% of active XacBank clients, are female. In developing such gender inclusive products, the corresponding business unit adheres to the bank's internal gender guidelines and policies. Also, in order to support women-led MSMEs, the Business Loan Program for GHG Emission Reduction offers more concessional loan terms to such entities.

113. The applicant tracks the implementation of gender-sensitive approaches for particular projects/programmes. Specific gender responsive outputs and outcomes are built-in to the projects/programmes to balance gender gaps determined throughout the gender assessments. Examples of project documentation indicating the data and information collected on the gender-related outcomes of the projects financed by the applicant were presented. The projects include the distribution of energy-efficiency products, social and financial education programmes, and lending programmes for women entrepreneurs. The presented evidence clearly demonstrates the applicant's practices of collecting and analysing gender and climate data, as well as gender and climate change accountability.

114. In addition, the applicant provides training on its gender policy and project-level gender analyses to relevant staff, such as its Human Resources Officer, Compliance Officer, ESMS Coordinator, and new employees.

115. The AP finds that the AE's gender policy, procedures, capacities and competencies, supported by evidence of its track record, fully meet the Updated GCF Gender Policy to the extent applicable to accreditation.

## IV. Conclusions and recommendation

### 4.1 Conclusions

116. Following its assessment, the Secretariat concludes the following in relation to the application with respect to the potential to continue in the role of an AE and to support the mandate and objectives of GCF: the AE can continue to contribute to GCF in implementing its 2020–2023 Strategic Plan with respect to:

- (a) Alignment of the AE's GCF portfolio with the climate-related national priorities of Mongolia, where the AE operates;
- (b) Potential to contribute to the adaptation and mitigation balance in the GCF portfolio since the AE has the ability to include adaptation components in its activities although its activities have historically been focused on mitigation;
- (c) Supporting diversity in GCF results areas such as health, well-being, food and water security; most vulnerable people and communities; infrastructure and built environment; and cross-cutting types of projects/programmes;
- (d) Enhancing private sector participation as the AE is a commercial bank in Mongolia; and
- (e) Diversification of the use of financial instruments, as the AE is seeking re-accreditation for equity and guarantees, in addition to loans.

117. Following its assessment, the AP concludes the following in relation to the application with respect to the AE's ability to meet the GCF accreditation standards and GCF policies relevant for accreditation for which it is seeking re-accreditation:

- (a) The AE partially meets the requirements of the GCF basic fiduciary standards, and to the extent applicable to accreditation, the GCF Policy on the Protection of Whistle-blowers and Witnesses, the GCF Policy on Prohibited Practices and the GCF AML/CFT Policy. The AE's investigative process and procedures are not publicly available to stakeholders who may wish to make a report or complaint. In addition, the AE's policy on whistleblowing does not adequately address the protection of whistleblowers nor provide a truly anonymous reporting mechanism. The above gaps are reflected in paragraphs 57 to 59 above and addressed in the corresponding condition of accreditation in section 4.2. The AE meets the requirements of the GCF specialized

fiduciary standard for project management and the specialized fiduciary standard for on-lending and/or blending for loans, equity and guarantees;

- (b) The AE meets the GCF Revised Environmental and Social Policy to the extent applicable to accreditation, GCF interim ESS standards and the GCF Information Disclosure Policy on disclosure of E&S information in relation to the medium E&S risk (category B/I2);
- (c) The AE has demonstrated that it has a policy, procedures and competencies for implementing its gender policy, which is found to be consistent with the Updated GCF Gender Policy to the extent applicable to accreditation, and has demonstrated that it has experience in gender consideration in the context of climate change; and
- (d) The AE has demonstrated that it has institutional-level systems, capacities and competencies regarding evaluation as required by the aforementioned GCF basic and specialized fiduciary standards and interim ESS standards that would enable it to meet the requirements of the GCF Evaluation Policy for its GCF-funded activities.

## 4.2 Recommendation on re-accreditation

118. The AP recommends, for consideration by the Board, XacBank for re-accreditation for its second term as follows:

- (a) **Accreditation type:**
  - (i) **Maximum size of an individual project or activity within a programme:** small<sup>18</sup> (including micro);
  - (ii) **Fiduciary functions:**
    - (1) Basic fiduciary standards;
    - (2) Specialized fiduciary standard for project management; and
    - (3) Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees); and
  - (iii) **Maximum environmental and social risk category:** medium risk (category B/I-2) (including lower risk (category C/I-3<sup>19</sup>)); and
- (b) **Conditions:** the AE will be required to submit to the AP, through the Secretariat, information on how it has complied with the conditions. The AP will thereafter assess whether the conditions have been met. This assessment will be communicated by the Secretariat, on behalf of the AP, to the Board for information purposes:
  - (i) Condition to be met by the AE prior to effectiveness of the amended and restated accreditation master agreement during stage III of the re-accreditation process:
    - (1) Delivery to GCF by the AE of evidence, in a form and substance satisfactory to the AP, that it has established and operationalized a whistle-blowing mechanism accessible by the AE's staff, contractors and

<sup>18</sup> As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), "small" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 10 million and up to and including USD 50 million for an individual project or an activity within a programme."

<sup>19</sup> As per the Revised Environmental and Social Policy adopted in decision B.BM-2021/18, category C is defined as "Activities with minimal or no adverse environmental and/or social risks and/or impacts," and intermediation 3 is defined as "When an intermediary's existing or proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and/or social impacts."

members of the public, that provides for full anonymity for the whistle-blower; and

- (ii) Conditions to be met by the AE prior to the submission of the first funding proposal to the Board during the re-accreditation term:
  - (1) Delivery to GCF by the AE of evidence, in a form and substance satisfactory to the AP, that its policies and procedures for protecting whistle-blowers and witnesses are clearly stated and publicly available in the AE's Whistle-blowing Policy or equivalent policy/procedure documents; and
  - (2) Delivery to GCF by the AE of evidence, in a form and substance satisfactory to the AP, of publication on the AE's public website of the terms of reference and investigation procedures adopted by and binding upon its internal audit function for investigations related to prohibited practices (as defined under the GCF Policy on Prohibited Practices) and the AE's guidelines for processing internal audit investigations.

119. The AE has been informed of the recommendation for accreditation, including the accreditation type and conditions, as identified in paragraph 118 above, and agrees to the recommendation.

### 4.3 Remarks

120. The AE is in the process of reviewing its Internal Audit Division Charter and Manual and commissioning a five-yearly independent quality review of its internal audit division.

121. The AE is encouraged to publish its full Code of Conduct and Conflict of Interest Policy and Whistleblowing Policy in the compliance section of its website.

122. The AE is encouraged to highlight that its complaints and feedback page is essentially the same mechanism for project grievances as for reporting allegations of fraud, corruption and financial mismanagement.

123. The AE is encouraged to publish on its website links to its projects as they feature on the GCF website.

124. The AE is encouraged to advance commitments relating to climate resilience and build its internal capacity to climate-proof and make its infrastructure projects and portfolio resilient to climate change impacts, including by adopting targets and key performance indicators in relation to that.

125. The AE is encouraged to enhance its capacity of calculating and reporting GHG emissions, in line with its existing goal to reduce Scope 1 and 2 emissions and as a means to manage Scope 3 emissions in the future.

