

An S&P Global Second Party Opinion (SPO) includes S&P Global Ratings' opinion on whether the documentation of a sustainable finance instrument, framework, or program, or a financing transaction aligns with certain third-party published sustainable finance principles. Certain SPOs may also provide our opinion on how the issuer's most material sustainability factors are addressed by the financing. An SPO provides a point-in-time opinion, reflecting the information provided to us at the time the SPO was created and published, and is not surveilled. We assume no obligation to update or supplement the SPO to reflect any facts or circumstances that may come to our attention in the future. An SPO is not a credit rating, and does not consider credit quality or factor into our credit ratings. See [Analytical Approach: Second Party Opinions](#).

Second Party Opinion

State Bank Sustainable Finance Framework

Feb. 17, 2025

Primary contact

Tsubasa Yoshizaki
Tokyo
+81 3 4550 8320
tsubasa.yoshizaki@spglobal.com

Location: Mongolia

Sector: Banks

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Sustainability Bond Guidelines ICMA, 2021

See [Alignment Assessment](#) for more detail.

Strengths

State Bank supports financial inclusion and economic empowerment in Mongolia. For example, it develops affordable housing programs and provides loans to low-income households to improve access to subsidized mortgages for individuals. In addition, several eligible green projects have important social co-benefits (water and pollution treatment, for instance, supports public health) given the level of development of the country.

Weaknesses

No weaknesses to report.

Areas to watch

State Bank aims to calculate and then develop a plan to reduce its direct emissions, but has not announced a timeline to do so. Likewise, the bank is working on its scope 3 emissions inventory. Alignment with the Mongolian government's 2050 Vision is therefore difficult to establish at this point.

Certain project categories are broadly defined. It is unclear which projects the bank will prioritize.

Eligible Green Projects Assessment Summary

State Bank was not able to share an indicative allocation of proceeds over the three years following issuance of the financing. The bank expects to use some 80% of net proceeds to finance new projects, while the balance will be directed to refinance projects.

Eligible projects under State Bank Sustainable Finance Framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

Renewable Energy Medium green

Generation of electricity from wind, solar photovoltaic (PV), hydropower facilities, geothermal or biomass/biogas power

Development or improvement of transmission systems

Development or manufacture of renewable energy technologies

Sustainable waste and waste use Light green

Improvement of water quality: water and wastewater treatment facilities, wastewater discharge infrastructure

Increase in water-use efficiency: water recycling and reuse, water saving systems, technologies, and water metering

Energy efficiency Light green

Smart grids, grid transmission lines, energy storage systems, upgrades to buildings

Environmentally sustainable management of living natural resources and land use, forestry and eco-tourism Light green

Promotion of sustainable agriculture: farming techniques and equipment, production of third-party certified products

Promotion of sustainable land use, wildlife habitat management, certified forestry and conservation

Development of eco-tourism projects (e.g. traditional nomadic activities, nomadic and cultural heritage preservation)

Pollution prevention and control Medium to Light green

Soil remediation, waste prevention and reuse, reduction and capture of greenhouse gases and harmful particles

Development and production of biodegradable packaging; recycling of metals, papers, and plastics

Green building Light green

Acquisition, construction, retrofit of commercial, public, industrial (data centers), and residential certified/energy-efficient buildings as well as in green landscaping and area development

Clean transportation Medium to Light green

Investments and expenditure in low energy consuming or low emission transportation

Expenditure in active mobility: self-propelled transportation, walking and cycling lanes

Infrastructure for low-carbon transportation: electric charging and low-carbon fueling stations, production of low-carbon vehicles

See [Analysis Of Eligible Projects](#) for more detail.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

State Bank was established in 2009 by the Government of Mongolia from assets of Zoos Bank. In 2013, State Bank acquired Savings Bank, at that time the fifth-largest bank in Mongolia.

As of December 2024, State Bank had total assets of Mongolian tugrik (MNT) 6.2 trillion (US\$1.8 billion). The bank had interest income of MNT673 billion (US\$195 million) in 2024. 3,777 employees are working at the bank, which has around 500 branches, 317 ATMs, and 9,510 point of sale merchants throughout Mongolia.

State Bank is 49.3% owned by the Ministry of Finance of Mongolia and 45.0% by the Deposit Insurance Corp. (DIC), with 5.7% in free float. State Bank is responsible for distributing over 80% of pensions and more than 100 types of social welfare and benefits in the country.

Material Sustainability Factors

Climate Transition Risk

Banks are highly exposed to climate transition risk through their financing of economic activities. Banks' direct environmental impact is small compared with their financed emissions and stems mainly from power consumption (e.g. data centers). Policies and rules to reduce emissions could raise credit, legal, and reputational risks for banks with large exposure to sectors with high emissions, such as oil and gas, metals and mining, real estate, or transportation. These medium- to long-term risks are significant and will be proportional to the effects of climate change on the economy. On the positive side, financing climate transition offers a growth avenue for banks through lending, debt structuring, and other capital markets activities. Mongolia has committed to reduce emissions by 22.7% between 2010 and 2030 in a projected business-as-usual (BAU) scenario (Source: UNFCCC), and to accelerate its transition to a green economy. For instance, the country aims to increase the share of renewable energy to 30% of its installed capacity by 2030 (Source: UNDP).

Physical Climate Risk

Physical climate risks will affect many economic activities as climate change increases the frequency and severity of extreme weather events. Banks finance a wide array of sectors that are exposed to physical climate risks. However, while climate change is a global issue, weather-related events are typically localized. Therefore, the magnitude of banks' exposure is linked to the geographical location of the activities and assets they finance. Similarly, banks' physical footprint (e.g. branches or ATMs) may also be exposed to physical risks, which may disrupt their ability to service clients in the event of a natural catastrophe, amplifying the impact on communities. Banks may contribute to mitigate the effects of physical climate risks by financing adaptation projects and climate-resilient infrastructure, as well as by investing in solutions that support business continuity in exposed geographies. Mongolia has faced far higher rates of warming than the global average. Changes in climate conditions are likely to pressure agricultural yields, according to "Climate Risk Country Profile: Mongolia," published by the Asian Development Bank (ADB). Nomadic herders, who account for 30% of the population, are impacted by rising temperatures. Herders have been increasing livestock to compensate for a decline in pasture productivity, pressuring natural resources (Source: World Bank).

Biodiversity and Resource Use

Banks contribute to significant resource use and biodiversity impact through the activities they fund or invest in. For example, the construction sector--which is a major recipient of bank financing--is a large consumer of raw material such as steel and cement. Similarly, bank-financed agricultural activities can have material biodiversity impacts. This is especially relevant in

Mongolia, given the country's reliance on natural resources. In 2022, the country's top exports were coal (US\$6.5 billion), copper ore (US\$2.7 billion), gold (US\$2.1 billion), animal hair (US\$0.4 billion), and iron ore (US\$0.4 billion), as per the Observatory of Economic Complexity.

Access and Affordability

Banks' large impact on society and the economy stems from their role in enabling access to financial services to individuals and businesses, and in ensuring the correct functioning of payments systems, which are cornerstones of economic development and stability. In most countries, unbanked and underserved population segments are still meaningful, although the access gap is most acute in emerging economies. Market imperfections such as low competition, incomplete information, and lack of financial literacy, often result in costly alternatives for small businesses and low-income people. Ensuring affordable access to financial services, especially to the most vulnerable population, therefore remains a challenge for the banking industry. New technologies will, however, increasingly enable banks to close this gap through cost efficiencies and product innovation. While structural issues such as poverty, informality, and lack of financial literacy limit access to financial services, banks have large opportunities to support economic development through financial inclusion. The Mongolian market is relatively mature, with 14 commercial banks, 188 nonbank financial institutions, and 207 savings and credit cooperatives, according to Mongolbank, and a penetration rate of 100% and 3.3 million banking accounts, according to Statistica.

Privacy Protection

Banks rely heavily on IT systems, using digitization (or computer processing of information) extensively. Growing use of client data collection, data mining, and artificial intelligence (AI) have brought significant efficiency gains and facilitated financial inclusion. However, this has increased banks' exposure to the risk of IT infrastructure failures and cyberattacks. The resulting disruptions (such as client data leakage, data theft, or AI-related unintended or biased use of private personal data) could subject banks to higher and unpredictable risks given their large number of customers and business partners. In addition, stolen data may be used by criminals to commit various types of frauds. We see privacy protection risks rising and evolving as cyber hackers become more sophisticated. However, most banks have strong risk governance and controls in place to prepare for these risks. On Dec. 17, 2021, the State Great Khural of Mongolia (the parliament) adopted the Law of Mongolia on Protection of Personal Data, which came into effect on May 1, 2022. It applies to matters related to personal privacy and relations in connection with the collecting, processing, using, and security of personal information.

Issuer And Context Analysis

All eligible categories aim to address some of State Bank's material sustainability factors.

Green categories cover transition, physical, and biodiversity risks, which are the most material environmental factors for the bank. Meanwhile, State Bank's social categories such as affordable housing, affordable basic infrastructure, access to essential services, employment generation, and food security contribute to the economic empowerment of targeted groups such as underserved communities. However, the framework's eligible categories also introduce risks such as to biodiversity and to communities. The bank assesses potential environmental and social risks for business loan applications with an amount greater than MNT100 million (US\$29,000) and a duration longer than 12 months. These assessments feed into an environment, social, and governance (ESG) database, facilitating risk reporting, monitoring, and informed decision-making.

The bank collaborates with international financial institutions, domestic ministries, and green project implementation organizations to offer products and services focused on sustainable development.

The examples are loans for sustainable agriculture, land use, forestry, biodiversity conservation, eco-tourism, pollution prevention, low-carbon transport, energy efficiency, and sustainable water and waste use. Its goal is to increase loan products aimed at sustainable development to 10% of the total loan portfolio by 2030.

State Bank has yet to assess its greenhouse gas emissions and develop climate transition strategies.

With the help of external consultants, the bank aims to calculate scope 1 and scope 2 emissions across its headquarters, branches, and units, and then develop a plan to reduce its direct emissions. State Bank has also joined the Partnership for Carbon Accounting Financials

Second Party Opinion: State Bank Sustainable Finance Framework

(PCAF) in May 2023. PCAF is a global initiative that promotes transparency and accountability in greenhouse gas accounting for financial institutions. The bank intends to measure and then disclose its financed emissions. However, it has not announced a timeline to do so, nor a commitment to set targets once its scope 3 emissions inventory is available. The limited disclosure and targets make it difficult, for example, to assess State Bank's alignment with the government of Mongolia's 2030 Nationally Determined Contribution.

Likewise, State Bank's processes for measuring physical climate risks in its loan book are nascent. The bank is working toward conducting a more systematic physical climate risk assessment of its loan portfolio starting from 2025 and integrate such risks into its management policy. It has trained employees on climate risk management in lending operations and is in the process of incorporating it into its risk management policy.

State Bank has been taking small steps to reduce resource uses. The bank has adopted a green development policy and launched a "green development" campaign to enhance employee participation in environmental protection, while reducing branch operating costs. State Bank has also joined the National Waste Recycling Association of Mongolia, providing waste sorting training to employees and placing waste sorting containers at each floor of its headquarters. Additionally, the bank has reduced paper form costs by 12% and toner costs for printers and copiers by 10% by promoting increased use of digital services to customers, reducing the need for physical documents, and minimizing waste.

State Bank endeavors to improve local communities' access to modern banking services through digitalization. Digital inroads are important, given the structure of the Mongolian society, where a third of population still has a traditional (semi) nomadic lifestyle. The acceleration of its digital offering exposes the bank to data protection and privacy risks. State Bank seems to have standard policies and procedures on privacy protection, and data breach detection and reporting.

Alignment Assessment

This section provides an analysis of the framework's alignment to the Social and Green Bond/Loan principles and the Sustainability Bond Guidelines.

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Sustainability Bond Guidelines ICMA, 2021

✓ Use of proceeds

All the framework's environmental project categories are shaded in green and all social project categories are considered aligned. State Bank commits to allocate the net proceeds from issuances under the framework exclusively to eligible projects contributing to specific Sustainable Development Goals (SDGs). Please refer to the Analysis of Eligible Projects section for more information on the environmental and social benefits of the expected use of proceeds.

✓ Process for project evaluation and selection

State Bank's green loan team, comprising members from the credit department and sustainable development unit, is in charge of screening potential sustainable projects. This includes identifying and managing environmental and social risks related to such investment opportunities. The green loan team will meet on a quarterly basis to review projects based on framework criteria that do not include an exclusion list, and the credit committee will approve the allocation of the projects.

✓ Management of proceeds

State Bank will track the net proceeds in an ad hoc register and allocate the net proceeds within 24 months after the issuance of a sustainable instrument. The bank will replace projects that cease to be eligible as soon as practicable. Pending allocation, net proceeds will be held in cash or cash equivalent, in accordance with the bank's liquidity management guidelines.

✓ Reporting

State Bank commits to report annually on the allocation of the net proceeds and on the financed projects' impact until full allocation of the net proceeds and in case of material developments. Reporting will be available on the bank's website as a standalone sustainable financing report or as a part of State Bank's annual report. Allocation reporting will include the amount of instruments outstanding, the breakdown of net proceeds by eligible category, a brief description of the projects and of their target populations for social investments. The company intends to follow ICMA's Harmonized Framework for Impact Reporting.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the "[Analytical Approach: Shades Of Green Assessments](#)," as well as our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

Green project categories

Renewable Energy

Assessment

 **Medium green**

Description

The generation of electricity from:

- Wind (onshore)
- Solar photovoltaic (including floating)
- Hydropower facilities that meet the following criteria: lifecycle carbon intensity below 50 gCO₂/kWh; or run-of-river without artificial reservoir or with low storage capacity; or power density greater than 10 W/m²
- Geothermal (direct emissions intensity threshold below 100 gCO₂/kWh)
- Biomass/biogas power with a life-cycle emissions intensity threshold below 100 gCO₂/kWh

Development of new transmission systems, or the improvement of existing transmission systems (or other infrastructure) dedicated to connecting renewables to the grid, or to facilitate the integration of at least 90% electricity from renewable sources into the grid

Development or manufacture of renewable energy technologies, including equipment for renewable energy generation and energy storage connected to renewables (e.g. wind turbines, batteries, green hydrogen fuel cells)

Analytical considerations

- Renewable energy projects such as solar PV and concentrated solar power (CSP), wind, and hydroelectric are key elements in limiting global warming to well-below 2°C, provided their negative impacts on the local environment, and physical risks are sufficiently mitigated. Production of technologies and equipment that support renewable energy generation projects indirectly contribute to climate change mitigation because they help facilitate low-carbon energy integration.
- As Mongolia’s economy develops and the country’s population grows, energy demand is also increasing. In 2022, 86% of power production came from coal, 4% from oil, and the remaining 10% from renewable sources. The country aims to double the share of renewables to 20% by 2030. State Bank utilizes appropriate certifications to mitigate risks associated with biomass sourcing. Yet, the bank does not have comprehensive policies regarding physical risks for the process of developing new transmission systems. The category is Medium green, since electricity generation projects are Dark green technologies, the development of transmission systems is Medium green, and renewable energy technologies is Light green.
- The construction, maintenance, operation, and decommissioning of renewable energy equipment (e.g. solar or wind components) could be energy and resources intensive in many cases. State Bank has not defined emission thresholds or waste performance objectives for projects involving the manufacturing of renewable energy technologies or equipment.
- The global hydrogen fuel cell market is projected to reach US\$45 billion by 2025, underpinned by increasing government initiatives and subsidies. Asia-Pacific dominates the hydrogen fuel cell industry because heavy investments are increasing demand from applications such as in the transportation sector (Source: Industry ARC). Since green hydrogen relies on electrolysis, water consumption is important. This is in addition to other environmental risks such as potential end uses that are polluting and impacts of leaked hydrogen on the atmosphere.

- Bioenergy derived from sustainably produced feedstock can provide a lower emissions alternative to fossil fuels and a decarbonization pathway where electrification is not possible. With State Bank’s biomass/biogas power projects, non-waste feedstock must receive certifications such as Better Biomass NTA 8080, ISCC (International Sustainability and Carbon Certification) Certified Feedstocks, Roundtable on Sustainable Biomaterials. The bank will conduct an environmental assessment and require its clients to provide management plans for environmental risk mitigation, including how they would reduce transport emissions of both feedstock and bioenergy products. While the bank has set a threshold below 100 gCO₂/kWh for biomass/biogas power assets’ life-cycle emissions intensity, there are no concrete plans for minimizing transportation emissions, which translate into a Medium green shade.
- Reliable and efficient electricity transmission and distribution (T&D) networks are important in supporting electrification. Investments in networks dedicated to renewable energy are critical for Mongolia to meet its nationally determined goals. In the absence of a commitment to be selective with end users, Mongolia’s decarbonization ambitions partially mitigate risks of grids being connected to heavy-emitting or energy-intensive assets. Investments in grid flexibility and resilience to physical risks, and in the reduction of transmission losses support their sustainability benefits. At the same time, networks may disrupt habitats and harm biodiversity. However, the bank does not have comprehensive policies to address physical risks/biodiversity in the process of developing new transmission systems or improving existing transmission systems.
- State Bank will manage water scarcity risks through environmental assessments before building any hydropower project. The construction of large hydropower facilities can have significant climate emissions from materials, construction, and reservoirs, as well as impacts on the local environment, hydrology, biodiversity, and communities. Performance thresholds in the framework temper these risks.
- Biodiversity and physical climate risks are part of State Bank’s environmental risk assessment but do not seem very developed for now. The bank is mandated to conserve and protect land, water, air, biodiversity, and both renewable and non-renewable resources.

Sustainable water and waste use

Assessment

 **Light green**

Description

Activities that improve water quality such as:

- Water and wastewater treatment facilities;
- Upgrades to wastewater treatment plants to remove nutrients;
- Wastewater discharge infrastructure;

Activities that increase water-use efficiency (at least 20% water savings) such as water recycling and reuse; water saving systems, technologies and water metering.

Activities financing waste management projects - solid waste.

Analytical considerations

- State Bank has confirmed all the projects will strictly abide by the waste management hierarchy (prevention, reduction, reuse, recycling) to minimize the volume of waste incinerated, and that no waste will be landfilled. Diverting waste from landfill avoid risks of soil contamination and methane emission. Efficient water and wastewater activities, in terms of both energy and water, are generally positive from a climate resilience and pollution prevention perspective. In addition, flood prevention, flood defense, and stormwater management projects play an important role in protecting infrastructure against physical climate risks.
- According to Mongolia’s “Solid Waste Account”, 71% or 2 million tons of waste generated in 2019 was landfilled, and less than 10% was reprocessed. This compares with the country’s sustainable development agenda to recycle 20% of total waste by 2030. And the amount of waste has been growing steadily (+20% in Ulaanbaatar between 2013 and 2021 for instance, according to UNFCC). Issues are scavengers (informal sector) playing a substantial role in collection of recyclables, and limited technological and financial capacity of the domestic recycling industry.
- The population of Ulaanbaatar, Mongolia’s most populous city, has more than tripled since 1990. Continued urbanization has drastically increased the demand for freshwater. State Bank’s water projects have important sustainability considerations,

such as carbon emissions, biodiversity, and community impacts. The eligible projects are Light green as their characteristics will not exceed regulatory requirements, but cover environmental considerations beyond water and waste, such as carbon emissions.

- Domestic wastewater treatment and discharge accounts for 30%, and industrial wastewater treatment and discharge 8% of the waste emissions (Source: Ministry of Environment and Tourism). The total number of households connected to centralized wastewater treatment plant systems more than doubled to 273 thousand in 2020 from 2000. In 2020, only 47.8% of households in Ulaanbaatar were connected to the central sewage treatment plant. Domestic or household and public service wastewater are treated mechanically and biologically by aerobic (open environment) methods in treatment plants. Wastewater treatment in undeveloped areas has meaningful environmental significance as untreated sewage contributes to excess nutrients in water streams, which, in turn, can result in the loss of biodiversity and have detrimental effects on an ecosystem.
- Mongolia has already started building a water recycling plant in Ulaanbaatar to manage the scarce water resources. Wastewater recycling could reduce the need for freshwater by up to 18.3 million cubic meters/year (50 000 cubic meters/day).
- Improving water efficiency and demand management can reduce water withdrawals and distribution systems' emissions.

Energy efficiency

Assessment

 Light green

Description

Energy efficiency projects that will result in at least a 20% improvement in energy efficiency. Energy efficiency measures directly linked to fossil fuel energy technology are excluded.

Eligible projects include smart grids; grid transmission lines; energy storage systems; and upgrades to buildings e.g. LED lighting, insulation, HVAC systems

Analytical considerations

- Energy efficiency brings various environmental benefits, such as reduction in greenhouse gas emissions from lower usage of power. Therefore, increasing energy efficiency is critical to limiting global warming to below 2°C. According to the IEA's net zero emissions by 2050 scenario, a 35% improvement in energy efficiency, equivalent to 4% per year, is necessary by 2030. But the average improvement from 2017 to 2021 was only 1.3%.
- While eligible spending could cover broad applications, the 20% minimum reduction in energy consumption applies to all projects. Clients will report and provide supporting evidence on their energy performance to the bank. However, State Bank will not commission its own third-party verifications. There is also a risk of rebound effects--absolute energy consumption increasing--given the country's rapid economic expansion. This translates into a Light green shading for the category, while energy storage is typically a Dark green technology.
- Smart energy grids are critical to monitor and optimize energy consumption, while helping to increase the share of renewables in the energy supply mix. Mongolia's power grid is still largely reliant on fossil fuel for power, meaning energy savings can translate into sizable avoided emissions. Investments in making grids more flexible, strengthening their resilience to physical risks, and reducing transmission losses contribute to energy use optimization. State Bank will exclude transmission lines that are directly connected to fossil fuel power.
- Energy storage plays a key role in net-zero energy systems by providing the necessary flexibility and adaptability to balance the intermittency of most renewable energy sources. Batteries require significant amounts of metals such as lithium, cobalt, or copper. The mining of these metals can harm the environment by disrupting natural habitats, causing pollution, and water stress.
- As per the Intergovernmental Panel on Climate Change (IPCC), 57% of buildings' greenhouse gas emissions are indirect, coming from offsite generation of electricity and heat, followed by 24% of direct CO₂ emissions produced on-site. Upgrades to buildings' lighting, insulation, and HVAC systems contribute directly to reducing their energy use. The country is focusing on reducing heat loss from buildings by 30% by 2025 and 40% by 2030 (UNFCCC).

- Energy efficiency investment in fixed assets present some physical climate risks. Likewise, power networks have an extensive footprint and may disrupt biodiversity, particularly in areas of high ecological value.

Environmentally sustainable management of living natural resources and land use, forestry & eco-tourism

Assessment

 **Light green**

Description

Activities that promote sustainable agriculture:

- Investments in improved farming techniques and equipment that improve yields and reduce inputs such as water, pesticides and fertilizers
- Improving the energy efficiency of irrigation
- Vertical farming projects powered by renewable energy sources or power source with carbon intensity threshold of 100 gCO₂/kWh

Financing of products and associated activities relating to sustainably-produced agriculture products that meet third party certifications such as: RTRS (Round Table on Responsible Soy), Better Cotton Standard, 2BSvs (Biomass Biofuel, Bioliquids, Sustainability Voluntary Scheme), Rainforest Alliance, FSC (Forest Stewardship Council)/PEFC (Program for the Endorsement of Forest Certification), ASC (Aquaculture Stewardship Council), ISCC (International Sustainability & Carbon Certification), MNS 6891 - Responsible Nomads Standard for Sustainable Nomadic Livestock Production Practices, Landscape of Mongolia’s agricultural sector: (1) Pastureland Use Agreement and (2) Veterinary Service Agreement

Activities promoting sustainable land use, forestry, and conservation:

- Forest conservation projects, afforestation on non-forested land, or reforestation on previously forested land using tree species that are well adapted to site conditions, accompanied by a sustainable forest management plan
- Projects and products that have received FSC and PEFC certification to promote sustainable forestry and responsible sourcing
- Terrestrial and aquatic biodiversity conservation including the protection of forests, coastal, marine, and watershed environments
- Wildlife habitat management, rehabilitation, restoration, and conservation from a degraded state and rewilding projects

Sustainable eco-tourism projects that promote the preservation of natural habitats, support biodiversity conservation, and foster socio-economic development in local communities (e.g. Traditional nomadic activities, nomadic and cultural heritage preservation)

Analytical considerations

- Agriculture can drive greenhouse gas emissions and harm biodiversity and ecosystems, given risks of land use change, fertilizer and pesticide overuse, water pollution, and soil degradation. Crops are highly exposed to physical climate risks, such as chronic changes in rainfall and temperatures. Forests can contribute to carbon sequestration, protect natural habitats, and provide ecosystem services, such as water regulation and soil stabilization, which improve climate resilience. Aquaculture can provide a lower-emissions protein alternative to livestock farming, depending on feed sourcing and emissions from logistics.
- In Mongolia, the land use, land use change and forestry (LULUCF) sector is the major source of greenhouse gas emissions. The country needs significant investments to protect soil quality and increase forests’ carbon sink capacity. The restoration projects, which may reach Dark green, is broadly defined. Some well-recognized certifications protect to some extent the integrity of the projects and have limited land use change in the absence of livestock investments. Ecotourism can cover projects with contrasted environmental footprints and is Light green at best. However, projects that clearly rule out large-

scale accommodation developments have higher environmental benefits. Projects will not finance equipment and vehicles using fossil fuel. As a result, the category has a Light green shade.

- The growing season lasts for just 90 days and weather conditions have become increasingly unpredictable. This affects crop production and nutrition (source FAO). Malnutrition is high globally and diets are highly imbalanced. Smart agriculture is a promising approach for tackling both climate mitigation and adaptation in global food production systems, with projects in irrigation system, techniques to reduce water and chemicals use, and vertical farming. However, there are always risks of a rebound (increase in water and fertilizers use following a phase of optimization) and land use change after an increase in yields, as agriculture becomes more profitable.
- State Bank defines sustainable agriculture as focusing on land preservation, whereas regenerative agriculture aims to restore biological processes. Organic farming includes crop rotation/compositing to improve soil fertility, maintain nutrient balance, and prevent erosion. Livestock (with grazing contracts and veterinary certificates) projects will center on productivity (rather than increase the total herd size), to reduce overgrazing, land degradation, and greenhouse gas emissions. This activity will be targeted at small-scale herders, as opposed to industrial breeding.
- In Mongolia, the winter of 2023-2024 saw a harsh dzud, leading to the loss of around 60 million animals. To support the economy, the government provided low-interest loans to herders through cooperatives. State Bank has issued loans totaling MNT425 billion (US\$124 million) to over 20,000 herders. In addition, the responsible herding standards include provisions to ensure the health and well-being of animals. Only a small number of herders currently meet its requirements. In November 2024, State Bank introduced the Green Herder Loan (or Transition Loan) to support herders in adapting to these standards.
- Proceeds could finance sustainable forest management practices, such as afforestation, reforestation, rehabilitation, and conservation, which should support forests' absorption of carbon dioxide. Forests cover around 12.6 million hectares, corresponding to 8.0% of Mongolia's total area. Projections for 2030 and 2050 by UNFCCC indicate that the carbon sink potential of the forests in Mongolia could increase by 14% and 31%, respectively. Projects will have to comply with international sustainable forest management certifications, such as FSC and PEFC, supporting their credibility. Clients may generate and sell carbon credits from the forests. The bank currently has no carbon credit-generating projects.
- Certifications for agricultural commodities and textiles cover many important environmental topics on farm and textile production practices. At the same time, certification systems vary significantly in stringency, may have blind spots and, in many cases, cannot adequately address larger systemic issues, such as direct and indirect land use change driven by agricultural expansion and associated emissions, or enforceability and traceability of such impacts. State Bank shared that local certifications have been increasingly aligning with international schemes. For instance, Mongolian cashmere producers had to adjust their production to the strict criteria required by established European sustainability standards (e.g., GOTS-- Global Organic Textile Standard). It is for clients to choose certifications as long as they comply with Mongolia's regulations and are consistent with those in the framework. This creates some uncertainty on the projects to be funded.
- Investments in restoration, rehabilitation, and conservation of natural habitats are critical for a low-carbon future. However, the absence of quantitative targets and thresholds limits visibility on the potential impact of financed projects.
- For projects exceeding MNT100 million, State Bank will carry additional environmental and social due diligence, covering for instance the projects' impact on biodiversity and climate change, indigenous/local communities, protected areas, offsets and "no net loss" schemes, and legal rights of nature. This is in line with local law. Mongolia adopted a revised Environmental Impact Assessment Regulation in February 2023, which requires the assessment of both the environmental and social impact of projects (See PwC).
- Ecotourism includes developing leisure activities based on cooperatives and community groups, developing natural heritage sites, and conserving protected areas and natural ecosystems. These practices could contribute to environmental preservation and community development. The bank confirmed that the projects will not include the construction of large accommodations. Some features can help establish the concept of eco-tourism, such as using energy-efficient equipment, installing eco-friendly sanitation facilities to prevent soil contamination, implementing effective waste management systems, and obtaining certifications for gender equality, social responsibility, and other relevant standards. However, the label remains very broad and could cover contrasted projects.
- Physical climate risks are material for this land-related category, given for instance the risks of forest fires, drought, or increased precipitation for agricultural crops.

Pollution prevention and control

Assessment

 **Medium to Light green**

Description

Soil remediation, waste prevention, or waste management, which includes re-use and recycling projects. This includes waste-to-energy plants that emit no more than 100 gCO₂/kWh

Development and production of environmentally sustainable products such as: i) recycling of metals, papers, and plastics; and ii) biodegradable packaging that has been certified by the Roundtable on Sustainable Biomaterials

Projects aimed at reducing or capturing greenhouse gas emissions and harmful particles, such as: i) air purification units (not related to fossil fuel generation facilities); and ii) harmful matter monitoring and environmental purification (not related to fossil fuel generation facilities)

Analytical considerations

- Waste management prevents harm to human health and local ecosystems. Proper recycling increases the useful life of materials, reducing carbon and other air pollutants’ emissions, and use of energy and natural resources. Pollution remediation has direct benefits to local biodiversity and human health by reducing concentration of air and soil pollutants. Likewise, the decontamination of soils sets the stage for long-term ecosystem recovery. Waste-to-energy projects may provide a disposal solution for waste that cannot be recycled or reused, but can create significant carbon and other pollutant emissions and therefore represent near-term transition steps.
- Projects contribute to mitigating a pressing issue in Mongolia. The country produces 2.9 million tons of solid waste annually, and the volumes in Ulaanbaatar (40% of total) have increased sevenfold in the past decade. 72% of that waste goes to designated landfills, while the rest is dumped (source: government). Ulaanbaatar – home to half of Mongolia’s three million population - is one of the most polluted capitals in the world. On the coldest days of the year, daily average PM2.5 pollution levels reach 687 micrograms per cubic meter — 27x the level WHO recommends as safe (source UNICEF). All projects will typically satisfy, rather than exceed, regulatory requirements, and do not have minimum performance criteria, except for recycling investments such as waste to energy, where the technical screening criterion is consistent with a Medium green assessment. Projects exclude industries operating in fossil fuels, but would still rely on hydrocarbons as a power source, creating carbon lock-in risks. These considerations drive the Light to Medium green assessment.
- Projects on soil pollution typically target ger areas and microbial contamination, and pollution from human waste and sanitation. Investments will cover remediation, rather than prevention, of pollution. These projects have social co-benefit, protecting the population’s health.
- Projects on waste to energy and recycling will follow the waste hierarchy--only waste streams that cannot be repurposed will be recycled, and only those with no potential for recycling will be incinerated, in line with current regulations. Accordingly, the projects will not translate into increasing volumes in landfills. These projects contribute to reducing the country’s methane emissions--Mongolia supports the voluntary commitment to reduce global methane emissions by 30% by 2030 compared to 2020. Waste-to-energy projects have a tight emission ceiling, which ensures high performance, but could limit investment opportunities.
- Energy-intensive carbon capture and storage (CCS) technologies will solely use renewable energy. Such projects may not be the likeliest in this category. Mongolia currently has no clear regulation with regard to environmental safeguards in the application of CCS projects. CCS’ material environmental hazards include potential leakage of CO₂ to the atmosphere or seepage into the groundwater, and vulnerability to physical climate risks and natural disasters. CCS projects exclude projects in relation to hydrocarbons, including enhanced oil recovery, or hard-to-abate industrial sectors.
- Given Mongolia’s state of electrification, a lot of machinery and equipment rely on fossil fuels, including processing and sorting facilities and vehicles transporting waste.
- Physical risks are not a primary consideration for project screening, while there may be investments in sizable, fixed assets, such as waste-to-energy plants.

Green building

Assessment

Light green

Description

Acquisition, construction, retrofit of commercial, public, industrial, and residential buildings as well as in green landscaping and area development that fulfill one of the following requirements:

- Buildings in the top 15% of the national or regional building stock in terms of primary energy demand
- Retrofit of buildings to achieve a minimum 20% energy or carbon emission reduction or energy efficiency of within top 15% of buildings in the relevant market
- Green data centers with a power usage effectiveness of under 1.5
- Obtain green building certifications such as: BREEAM – Excellent or higher; LEED – Gold or higher; Green Star – 5 Stars or higher; EDGE – Certified or higher; BNaC 25-01-20 Building thermal performance of Mongolia

Analytical considerations

- The IEA emphasizes that reaching net-zero emissions in buildings demands major energy efficiency strides and fossil fuel abandonment. All properties must achieve high energy performance. New properties should additionally cut emissions from building materials and construction. Additionally, addressing physical climate risks is crucial for strengthening climate resilience across all buildings. Mongolia’s Green Development Policy and INDC set out a goal to reduce building heat loss by 20% by 2020, and 40% by 2030.
- State Bank considers commercial, public, industrial, and residential buildings that fulfill one of the defined criteria to be eligible. The project category’s exclusion list rules out any fossil fuel-related assets and power generation activities. However, the eligibility criteria do not consider downstream emissions, e.g. from fossil fuel heating. Coal remains the most common heating source for district supply and for individual households, according to the International Renewable Energy Agency. These associated risks of locking in emissions, along with the lack of energy performance policies, have a negative climate impact, limiting this category to Light green.
- The bank has not shared an indicative breakdown of projects between new construction, renovation, and existing buildings. State Bank will only consider renovation or acquisition of existing buildings for the criteria of "buildings that fall within the top 15% of the national or regional building stock in terms of primary energy demand" and will not include new buildings. State Bank has a 20% quantitative performance threshold on energy efficiency or emissions savings for retrofit, in addition to the building being within the top 15% building stock. Similarly, it will only consider green data centers powered by renewables, with a power usage effectiveness ratio of below 1.5 as eligible. It will require documentary evidence, including an energy audit report from clients, to assess and determine the eligibility. The application of this criteria is more meaningful for existing buildings since new builds are often more energy efficient than the existing built stock.
- The BNaC 25-01-20 standard covers building design and thermal insulation, and construction material. Although green building certifications cover a broad set of environmental issues, they differ considerably in their requirements for energy efficiency, embodied emissions of construction materials, and climate resilience. Typically, their point-based systems do not guarantee low carbon new construction nor highly energy efficient existing buildings. Their robustness depends on a variety of factors, such as levels achieved and type of certification. There is no established energy efficiency building regulations in Mongolia. For example, both the National Energy Efficiency Action Program of Mongolia and the Energy Conservation Law of Mongolia do not require any energy performance improvements or specific efficiency measures in the construction of new buildings. Hence, the energy performance of buildings receiving one of the listed certifications should exceed local regulation’s requirements.
- The framework does not include thresholds on embodied emissions in building material, which are significant. As green building certifications rely on a points-based system, they would not necessarily result in a reduction in embodied emissions.
- Apart from the green building certification and environmental and social risk assessment for loan applications with an amount greater than MNT100 million and a duration longer than 12 months, there are no specific criteria to mitigate the physical climate risks these eligible buildings could be exposed to, such as droughts, dust storms, and wildfires.

Clean transportation

Assessment

Medium to Light green

Description

Investments and expenditure in low energy consuming or low emission transportation, including:

- Zero direct-emissions vehicles (under 50 gCO₂/km up to 2025, and zero tailpipe emissions thereafter) e.g. cars, scooters, motorbikes, light commercial vehicles
- Zero direct-emissions public transportation (under 50 gCO₂/km up to 2025, and zero tailpipe emissions thereafter) including electric trams, trains, and buses
- Other zero direct emissions vehicles e.g. cranes, forklifts, tractors
- Freight rail transportation (under average portfolio emissions of 25 gCO₂/t-km up to 2030, 21 gCO₂/t-km from 2030 to 2050)

Expenditures relating to active mobility













- Self-propelled transportation such as bicycle and scooters
- Infrastructure for active mobility including walking and cycling lanes

Technology and infrastructure for low-carbon transportation, including electric charging stations, low-carbon fueling stations such as for green hydrogen or biofuels, battery exchange and swapping stations. It also includes expenditure into the development and production of low-carbon vehicles and associated technology/components, such as manufacturing of EV batteries and development of its specialized parts

Analytical considerations

- Mitigating greenhouse gas emissions from transportation will be crucial to meet global decarbonization goals. This is because the transport sector accounts for 23% of global energy-related greenhouse gas emissions, according to the IPCC. Fossil fuel-powered vehicles and vessels also create air pollution, such as nitrogen oxides and sulfur oxides. Electric road and rail transport is key to decarbonizing land transportation. The use of biofuels and synthetic fuels may also contribute to lower emissions if climate and environmental risks such as feedstock sourcing, direct and indirect land use change, and energy intensity of production are effectively mitigated.
- Investments in low-emission transport and supporting infrastructure are key to decarbonizing the sector and meeting Mongolia’s climate targets. Biofuels will not be produced from edible biomass (no food competition), or cause change in land use of other edible biomass (no deforestation). Vehicles dedicated to the transport of fossil fuels are excluded. This project category receives an interval shade, Medium to light green. While electrified transportation, active mobility, and the supporting infrastructure are consistent with a Medium Shade, initiatives such as expanding the use of hybrid vehicles adds a Light green element to the category.
- Some investments will fund the electrification of vehicles and public transportation, as well as the enabling infrastructure for EVs. While hybrid vehicles and bi-mode rolling stocks are more climate-friendly than conventional fossil-based alternatives, they are not a long-term climate-resilient solution to transportation. The framework’s eligibility criteria include emission thresholds for financed hybrid vehicles and freight rail.
- Facilitating active mobility such as cycling and scooter also plays an important role in reducing the use of motorized transportation, be it private or public.
- The decarbonization of all modes of transport will require a significant expansion of supporting infrastructure and technologies for EVs, such as charging stations. However, the actual emissions reduction the vehicles can provide is dependent on the local electricity grid profile. According to the IEA, coal accounts for 86% of Mongolia’s electricity generation mix. In addition, the framework does not explicitly address the environmental risks in EVs’ production. These include energy-intensive manufacturing processes, the mining of raw material and metals (especially for batteries), and circularity.
- The framework has not specifically addressed physical climate risks, which are a material consideration for infrastructure projects. They will be managed through the bank’s environmental and social risk assessment for loan applications exceeding MNT100 million and with a duration longer than 12 months.

S&P Global Ratings' Shades of Green

Assessments					
 Dark green	 Medium green	 Light green	 Yellow	 Orange	 Red
Description					
Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects					
 Solar power plants	 Energy efficient buildings	 Hybrid road vehicles	 Health care services	 Conventional steel production	 New oil exploration

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Social project categories

Affordable Housing

Financing and expenditure on:

- Development, construction, renovation or provision of affordable housing or accredited social housing programs
- Redevelop hectares of ger areas into eco-districts
- Providing and improving access to subsidized mortgages for individuals

Target population: Low-and-middle-income households and individuals and rural area/underdeveloped area

Analytical considerations

- The development of affordable projects helps improve housing conditions and standard of living for low-income families, while the redevelopment of previously ger areas (those with traditional Mongolian dwellings) would bring environmental and health co-benefits, given the typically poor sanitary conditions in these areas.
- Nearly half of Mongolians live in Ulaanbaatar, which is 0.3% of the country's territory, translating into a density ratio more than 150 times greater than the national average. In 2020, half of Ulaanbaatar's 414,000 households lived in ger areas. 88% of the soil in Ulaanbaatar is polluted, including in some ger areas, contaminated with disease-causing pathogens such as salmonella. In addition, there could be some 1,000 homeless people in Ulanbataar (source: ADB). This illustrates the need for healthy and modern accommodation in the capital city and the wider country. Public housing has become a priority for the current Mongolian government and its partners. In the past, ADB had for instance approved an US\$80 million loan to help transform ger areas in Ulaanbaatar into affordable, low-carbon, climate-resilient, and livable eco-districts.
- Low and middle-income households are those earning less than US\$6.85 per day per capita (US\$206 per month). Eligibility thresholds will vary slightly by region and therefore the bank will primarily adhere to regional jurisdiction definitions where available.
- State Bank will prioritize rural or underdeveloped parts in Ulaanbaatar's ger areas, which are characterized by unplanned settlement of low and medium-income households without proper access to urban infrastructure and social and economic facilities. Projects are structured around a voluntary land swapping. Under this approach, individuals with a plot of land within the proposed eco-district perimeter will obtain a housing unit through land and asset swaps, rent-to-own schemes, or affordable rental arrangements. Otherwise, the eco-district design will be adjusted to avoid affecting the non-participating household. A community participation plan, which includes skills training and linkages with job opportunities for poor households, will also be implemented.
- In addition to regularly placed mortgages, State Bank provides subsidized housing loan rates to Mongolian citizens, targeting inhabitants in ger areas. These loans have an interest rate of 6% per annum. In contrast, the market interest rate for loans for residential housing with self-financing sources is typically 12%-14% per annum. State-related company MIK Holding JSC supports these schemes by purchasing these government-subsidized mortgage loans from originating banks and securitizing them. Currently, loans are only provided to developers and individuals purchasing properties, i.e. there is no funding for rental purposes.
- The framework does not specifically consider environmental criteria for these housing units, exposing it to potential climate resilience or climate transition issues.

Affordable basic infrastructure

Financing and expenditure on:

- Development, expansion, or improvement of access to clean drinking water, sewers, and sanitation
- Development and expansion of transmission and distribution facilities and infrastructure aimed to improve access to electricity (including in rural areas)

Second Party Opinion: State Bank Sustainable Finance Framework

- Development of roads, railways, and other transportation systems in areas that lack connectivity or infrastructure to enhance local and regional connectivity.
- Target population: General population

Analytical considerations

- Mongolia needs investments in infrastructure to drive its development and the socioeconomic empowerment of its population. Lack of basic services and infrastructure in ger areas has become a major source of urban problems such as air, water, and soil pollution; residents often suffer from poor living conditions. While access to electricity is high in the country, Mongolia lacks electricity generation capacity, importing power from Russia and China (a fourth of total consumption). In general, transport infrastructure in emerging countries is key to economic development, as it can improve access to services, allow more efficient movements of goods, and link producers to markets, thereby lifting populations out of poverty.
- Given country-wide needs, projects target the entire population.
- Water and sanitation facilities are limited and need to be upgraded and expanded. The issue is acute in the capital city, given the concentration of inhabitants. Only 59% of the population have piped water supply connections (direct house connections and kiosks) and only 20% are connected to piped sanitation (source: ADB). A rapidly growing urban population puts further pressure on an already weak urban infrastructure and public service delivery system. Projects will include sanitation and hygiene facilities in ger areas, e.g. toilets with basic facilities, toilet equipped for elderly and disabled. In Gers, water is typically distributed through water kiosks. While some are connected to the expanding central water supply system, many are replenished by trucks.
- Electricity consumption per capita in Mongolia has increased by 150% in the past two decades (source: IEA). Besides large coal-fired power plants, districts use separate small-scale heating plants. Under its latest NDC targets, the government aims to increase the share of generation capacity from renewable energy sources to 30% by 2030, and to build export-oriented power plants. More transmission lines should contribute to these economic objectives, while helping the population to benefit from more stable and resilient access to power. Transmission lines are exposed to physical risks and have a large footprint that may disrupt biodiversity.
- With a population density of 2.1 people per square kilometer, Mongolia is one of the least densely populated country in the world. As a result, the country has some of the largest average transport distances between cities (600km) and the highest logistics costs (30% of GDP), as per the EBRD. Transport infrastructure outside the major cities requires significant resources for the development of new roads and railways and maintenance of existing infrastructure. With only 1,815km of railways, Mongolia is less equipped than many other countries in Asia. Most exports travel through Zamiin-Uud to Tianjin port in China. However, the Zamiin-Uud hub is becoming saturated, highlighting the need for investments to increase the country's logistics capability. The domestic network of roads has a total length of about 113,000 km, placing Mongolia 48th in the global ranking for availability of roads per capita, according to Worlddata. The roads financed under the framework will be free to use. On the downside, rapid motorization and road expansion in the country could exacerbate road safety problems and increase tailpipe emissions. There are also more environment-friendly projects, such as public transit, walkways, and bicycle lanes.
- State Bank requires an environmental impact assessment to be completed prior to constructing large fixed assets, in line with the law.

Access to essential services - Health and Education

Accessible and affordable health care

- Development, expansion, acquisition, or maintenance of any buildings or facilities relating to: public or private/subsidized health care institutions (such as hospitals, clinics, community health care centers, pharmacies, mental health centers)
- Expenditure on supporting health care-related products and services in both public and private/subsidized health care facilities or institutions: sanitation supplies and pharmaceutical products; provision of medical equipment; system and technology innovation and logistics services; provision of public vaccination program; development or expansion of social protection mechanisms allowing free health care professionals consultation (general practitioners, specialists) and access to the related treatments

Second Party Opinion: State Bank Sustainable Finance Framework

Access to affordable and quality education

- Development, construction, maintenance, and operation of public primary and secondary schools, public kindergartens, and early childhood development facilities (free/subsidized education), public education facilities to cater for children with special needs or disabilities
- Financing of educational services, or operation of public education programs and facilities for underserved communities or in rural areas
- Development of free or public libraries
- Free or subsidies education and vocational training for educational professionals

Target population: General population; for all individuals regardless of ability to pay

Analytical considerations

- Healthcare projects improve patients' access to essential medical care and could translate into greater efficacy of existing health care infrastructure. Meanwhile, the financing of education projects and facilities aims to upskill the beneficiaries, creating economic opportunities as a result.
- Mongolia faces health challenges including illnesses and liver cancer caused by chronic hepatitis, and growing occurrences of noncommunicable diseases (cardiovascular and chronic respiratory diseases, cancer, and diabetes). Fast urbanization brings its own challenges, such as air pollution (in winter, the daily average particulate matter (PM)2.5 pollution level in Ulaanbaatar may reach 27x the level the WHO recommends as safe, according to the UNICEF), and access to safe drinking-water and sanitation for communities on the outskirts of Ulaanbaatar. Mongolia's Sustainable Development Vision 2030 and the State Policy on Health (2017–2026) aim to reduce the prevalence of hepatitis and tuberculosis, and the risk of noncommunicable diseases. The country has been working with the WHO on advancing quality and universal health coverage.
- Health care investments touch on affordability through the provision of subsidized services. Primary health care is funded by the government budget and enables citizens to access essential services at health centers. Projects will also improve accessibility of health care. Not all services will be free/subsidized, and financing private hospital helps to bridge the gap, given Mongolia's insufficient coverage of public hospitals. In addition, the Ministry of Health validates each year a list of private hospitals that citizens can visit while being covered by the national health insurance.
- 20% of children aged three to five do not have access to early education, especially those from families of rural herders, with disabilities, and with low income. A 2018 UNICEF survey found young children had 67% numeracy and literacy skills, lower than international standards. The enrollment rate in schools is high in Mongolia at 98%, but 5.1% of girls and 13.4% of boys are not studying in upper secondary school. The World Bank found 27.8% of Mongolians live below the national poverty line of MNT 184,747 (US\$60) per person per month, highlighting the need to provide financial support (both for accommodation and tuition fees) to broaden the access to education. Among teachers, 75.2% have never received pedagogical guidelines on distance education and 20% lack the competency required to effectively operate digital equipment, underlining the need for training.
- With a focus on affordability, the Mongolian government funds primary and secondary schools through budgets that have three components: a normative amount based on a "per student" allocation in which the amount per student varies according to grade and location of the school; a fixed budget to cover utility costs; and targeted social assistance to support low-income children.
- This category targets the entire population regardless of individuals' ability to pay, suggesting financing could be channeled to populations that are less in need. However, access to quality health care and education seems to be a widespread issue in the country.
- The construction of schools and hospitals emits considerable greenhouse gases. The production and use of materials such as cement, steel, and aluminum have a significant carbon footprint. Environmental performance is not a priority consideration for these projects.

Employment generation and programs

Financing and expenditure to:

- Microfinancing and empowering women entrepreneurs, social entrepreneurs, or enterprise by providing financing and mentorship programs
- Job creation and training and development programs, such as capacity building aimed at upskilling and improving employability

Target population: underserved communities, unemployed individuals, micro, small and medium enterprises (MSMEs), small and midsize enterprises (SMEs), and women entrepreneurs

Analytical considerations

- According to the World Bank, Mongolia's labor force is aging, labor force participation is low, and unemployment is high. In addition, many of the jobs are in relatively low-paying sectors. The challenge remains to create more and better jobs compared with the past decade. Financial and technical support enhances access to economic opportunities, or fosters inclusion and diversity for underserved populations. These include residents of ger or remote areas, the youth, young adults, elderly, the disabled.
- Gender inequality still prevails in Mongolia, with the country ranking 133rd in terms of women's representation in decision-making. Only 17.1% of parliamentary seats are held by women, below the global average of 26.5%. The June 2023 UNDP Gender Social Norms Index report shows that 97% of Mongolians hold biases against women. Including income thresholds would better ensure financing is channeled to the underserved segments of the population.
- Social entrepreneurs/enterprises refer to an individual/business whose activity is not-for-profit, or mission-oriented if it is for-profit. The scope of business can be both social and environmental, if there is a clear objective to create a sustainable impact.
- The definition of MSMEs and SMEs refers to the Law of Mongolia on Support of Small and Medium Enterprises and Services (2019) – operating in the production, trade, and services sectors. A micro enterprise is a business entity with up to 10 employees with annual sales income of up to MNT300 million (US\$88,300); a small enterprise is a business entity with 10–50 employees with annual sales revenue of MNT300 million to MNT1 billion (US\$294,300); a medium enterprise is a business entity with 50–200 employees with annual sales revenue of MNT1 billion to MNT25 billion (US\$7.4 million). According to the Asian Development Bank, the MSME sector account for 77% of total registered business entities in Mongolia, 72% of the total workforce, 17.8% of gross domestic product, and 2.3% of total exports. However, by the end of 2023, loans to MSMEs were only 23.2% of total bank loans. Financing for MSMEs is constrained by unattractive loan terms, high collateral requirements, complicated lending procedures, as well as low financial literacy, especially among women entrepreneurs. While there is a need to address here, lending to micro and small enterprises may be more meaningful, as these struggle the most to borrow.
- The framework does not include safeguards on borrowing costs. State Bank is transparent on its pricing, which is available on its website, but does not typically grant concessionary rates, with cost of funding directly mirroring the borrower's credit risk.

Food security and sustainable food systems

- Expenditure on initiatives and programs pertaining to local agricultural production, such as those involving food processing, agricultural goods and sustainable and resilient agriculture management, and production facilities and inputs; and improved productivity of small-scale producers in terms of market access tools and solutions
- Developing access to nutrition and food safety (food and potable water) programs that address malnutrition for target populations in areas with an explicit need to tackle food security
- Provision of technical capacity building or training to smallholder farmers to increase nutritional quality of agricultural products and uptake of new technology and introduce efficient farming practices

Target population: general population, smallholders, small-scale producer, and indigenous peoples at the community level

Analytical considerations

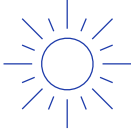
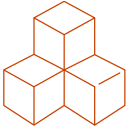








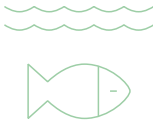

Second Party Opinion: State Bank Sustainable Finance Framework

- Mongolia grapples with food insecurity and malnutrition. According to the WHO, an estimated 1 in 4 Mongolians experiences moderate or severe food insecurity, and a large portion of the food available on the market, such as fresh fruits and vegetables, is imported.
- The latest National Nutrition Survey in 2017 found that the burden of malnutrition is high in Mongolia. Poor exclusive breastfeeding practices, lack of dietary diversity, and high prevalence of micronutrient deficiencies, food insecurity, and obesity pose serious health consequences for the population. The increasing number of people adopting unhealthy energy-dense diets and engaging in less physical activity could increase the prevalence of non-communicable diseases, which are already the leading cause of mortality in the country.
- Given Mongolia's stage of economic development, agriculture remains an important sector, contributing 13% to GDP in 2022 (compared to well below 5% for more developed economies) and employing a third of the workforce. Funding and promoting of more sophisticated agricultural practices among farmers with small landholdings should translate into crop yield gains and improved time to market through better logistics, reducing loss in storage.
- The projects closely align with national objectives. The Ministry of Food, Agriculture and Light Industry provides working capital and investment loans to support agricultural production. State Bank's loans could be subsidized, discounted, or part of wider government tax incentives.
- This category targets the entire population, with a focus on smallholders, small-scale producers, and indigenous people. Smallholders farm on less than 10 hectares of land on average, as defined by FAO. Indigenous people are nomadic herders living in traditional gers, or yurts, on the vast, empty steppes. It makes sense to have a wide target population group as food security tends to be a nationwide issue.
- The projects will comply with Mongolia's Law on Food, which governs the quality and sustainability of food. Still, they could entail massive use of fertilizers, which have their environmental shortcomings. Excessive amounts of fertilizer lead to the release of harmful greenhouse gasses into the atmosphere and eutrophication of waterways, in addition to reducing the organic matter and humus content in the soil. There are limited environmental safeguards in the use of fertilizers, pesticides, or chemicals for these projects.

Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs			
Renewable energy				
	7. Affordable and clean energy*	9. Industry, innovation and infrastructure*		
Sustainable water and waste use				
	6. Clean water and sanitation*	11. Sustainable cities and communities*	12. Responsible consumption and production*	
Energy efficiency				
	7. Affordable and clean energy*	9. Industry, innovation and infrastructure*	11. Sustainable cities and communities	
Environmentally sustainable management of living natural resources and land use, forestry & eco-tourism				
	12. Responsible consumption and production*	13. Climate action	14. Life below water*	15. Life on land*

Pollution prevention & control



3. Good health and well-being*



11. Sustainable cities and communities*

Green buildings



9. Industry, innovation and infrastructure



11. Sustainable cities and communities*

Clean transportation

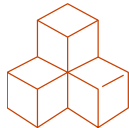


9. Industry, innovation and infrastructure



11. Sustainable cities and communities*

Affordable Housing

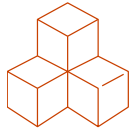


9. Industry, innovation and infrastructure



11. Sustainable cities and communities*

Affordable basic infrastructure



9. Industry, innovation and infrastructure*



11. Sustainable cities and communities*

Second Party Opinion: State Bank Sustainable Finance Framework

Access to essential services
–Health and Education



3. Good health and well-being*



4. Quality education*

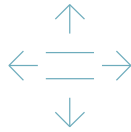


5. Gender equality

Employment generation and programs



5. Gender equality*



10. Reduced inequalities*

Food security and sustainable food systems



2. Zero hunger*



3. Good health and well-being

*The eligible project categories link to these SDGs in the ICMA mapping.

Related Research

- [Analytical Approach: Second Party Opinions: Use of Proceeds](#), July 27, 2023
- [FAQ: Applying Our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions](#), July 27, 2023
- [Analytical Approach: Shades of Green Assessments](#), July 27, 2023
- [S&P Global Ratings ESG Materiality Maps](#), July 20, 2022

Analytical Contacts

Primary contact

Tsubasa Yoshizaki

Tokyo

+81 3 4550 8320

tsubasa.yoshizaki@spglobal.com

Secondary contacts

Bertrand Jabouley

Singapore

+65-6239-6303

bertrand.jabouley@spglobal.com

Vanessa Lai

Hong Kong

+852-2912-3019

vanessa.lai@spglobal.com

Second Party Opinion: State Bank Sustainable Finance Framework

Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P) receives compensation for the provision of the Second Party Opinions product (Product). S&P may also receive compensation for rating the transactions covered by the Product or for rating the issuer of the transactions covered by the Product. The purchaser of the Product may be the issuer.

The Product is not a credit rating, and does not consider credit quality or factor into our credit ratings. The Product does not consider, state or imply the likelihood of completion of any projects covered by a given financing, or the completion of a proposed financing. The Product encompasses Use of Proceeds Second Party Opinions and Sustainability-Linked Second Party Opinions. An S&P Global Use of Proceeds Second Party Opinion provides an opinion on an issuer's sustainable finance instrument, program, or framework, and considers the financing in the context of the issuer's most material sustainability factors, the issuer's management of additional sustainability factors relevant to the sustainable financing, and provides an opinion regarding alignment with certain third-party published sustainable finance principles ("Principles"). An S&P Global Ratings Sustainability-Linked Second Party Opinion considers features of a financing transaction and/or financing framework and provides an opinion regarding alignment with relevant Principles. For a list of the Principles addressed by the Product, see the Analytical Approach, available at www.spglobal.com. The Product is a statement of opinion and is neither a verification nor a certification. The Product is a point in time evaluation reflecting the information provided to us at the time that the Product was created and published, and is not surveilled. The Product is not a research report and is not intended as such. S&P's credit ratings, opinions, analyses, rating acknowledgment decisions, any views reflected in the Product and the output of the Product are not investment advice, recommendations regarding credit decisions, recommendations to purchase, hold, or sell any securities or to make any investment decisions, an offer to buy or sell or the solicitation of an offer to buy or sell any security, endorsements of the suitability of any security, endorsements of the accuracy of any data or conclusions provided in the Product, or independent verification of any information relied upon in the credit rating process. The Product and any associated presentations do not take into account any user's financial objectives, financial situation, needs or means, and should not be relied upon by users for making any investment decisions. The output of the Product is not a substitute for a user's independent judgment and expertise. The output of the Product is not professional financial, tax or legal advice, and users should obtain independent, professional advice as it is determined necessary by users.

While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P and any third-party providers, as well as their directors, officers, shareholders, employees, or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness, or availability of the Product. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for reliance of use of information in the Product, or for the security or maintenance of any information transmitted via the Internet, or for the accuracy of the information in the Product. The Product is provided on an "AS IS" basis. S&P PARTIES MAKE NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, INCLUDED BUT NOT LIMITED TO, THE ACCURACY, RESULTS, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE WITH RESPECT TO THE PRODUCT, OR FOR THE SECURITY OF THE WEBSITE FROM WHICH THE PRODUCT IS ACCESSED. S&P Parties have no responsibility to maintain or update the Product or to supply any corrections, updates, or releases in connection therewith. S&P Parties have no liability for the accuracy, timeliness, reliability, performance, continued availability, completeness or delays, omissions, or interruptions in the delivery of the Product.

To the extent permitted by law, in no event shall the S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence, loss of data, cost of substitute materials, cost of capital, or claims of any third party) in connection with any use of the Product even if advised of the possibility of such damages.

S&P maintains a separation between commercial and analytic activities. S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

For PRC only: Any "Second Party Opinions" or "assessment" assigned by S&P Global Ratings: (a) does not constitute a credit rating, rating, sustainable financing framework verification, assessment, certification or evaluation as required under any relevant PRC laws or regulations, and (b) cannot be included in any offering memorandum, circular, prospectus, registration documents or any other document submitted to PRC authorities or to otherwise satisfy any PRC regulatory purposes; and (c) is not intended for use within the PRC for any purpose which is not permitted under relevant PRC laws or regulations. For the purpose of this section, "PRC" refers to the mainland of the People's Republic of China, excluding Hong Kong, Macau and Taiwan.

For India only: Any "Second Party Opinions" or "assessments" assigned by S&P Global Ratings to issuers or securities listed in the Indian securities market are not intended to be and shall not be relied upon or used by any users located in India.

Copyright © 2025 by Standard & Poor's Financial Services LLC. All rights reserved.