ADB

Technical Assistance Consultant's Report

Project Number: 51413-001

Knowledge and Support Technical Assistance (KSTA)

March 2023

GREEN BONDS – ISSUANCE PROCESS, EXTERNAL VERIFICATION AND NEXT STEPS IN MONGOLIA

Green Finance in Mongolia

Final Report

Asian Development Bank

CURRENCY EQUIVALENTS

Currency Unit	–	togrog (MNT)
MNT1.00	=	$0.0003482
$1.00	=	MNT3,482

ABBREVIATIONS

Abbreviation	Meaning
ADB	Asian Development Bank
AE	Accredited Entities
AF	Adaptation Fund
AFOLU	Agriculture, Forestry and Other Land Use
BOM	Bank of Mongolia
CBO	Community Based Organization
CCD	Climate Change Department of the Ministry of Environment and Tourism
CCF	Climate Change Finance
CIF	Climate Investment Fund
CCRCC	Climate Change Research and Cooperation Centre
COP	Conference of the Parties
DBM	Development Bank of Mongolia
DMC	Developing Member Countries
DRM	Disaster Risk Management
EBRD	European Bank for Reconstruction and Development
EE	Energy Efficiency
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FO	Financial Institution
FRC	Financial Regulatory Commission
GCF	Green Climate Fund
GeDP	Green Development Policy
GEF	Global Environment Facility
GGGI	Global Green Growth Institute
GHG	Greenhouse Gas
GIZ	Gesellschaft für Internationale Zusammenarbeit
GOM	Government of Mongolia

Abbreviation	Meaning
IFC	International Finance Corporation
IFI	International Financial Institution
JICA	Japan International Cooperation Agency
LE	Low Emissions
LULUCF	Land use, land use change and forest
MBA	Mongolian Bankers Association
MDG	Millenium Development Goal
MED	Ministry of Economy and Development
MET	Ministry of Environment and Tourism
MFA	Ministry of Foreign Affairs
MGFC	Mongolian Green Finance Corporation
MOF	Ministry of Finance
MSE	Mongolian Stock Exchange
MSFI	Mongolian Sustainable Finance Initiative
NAMA	Nationally Agreed Mitigation Action
NAP	National Adaptation Plan
NCCC	National Committee on Climate Change
NCI	New Climate Institute
NCSD	National Council for Sustainable Development
NDA	National Designated Authority
NDC	Nationally Determined Contributions
NBFI	Non-Banking Financial Institution
NFP	National Focal Point
ODA	Official Development Assistance
PSOD	Private Sector Operation Department
RE	Renewable Energy
SDCC	Sustainable Development Climate Change Department
SDCD	Climate Change and Disaster Risk Management Division
SEP	Sustainable Finance Principles
SFA	Sustainable Finance Association
SME	Small and Medium Enterprise
TA	Technical assistance
UB	Ulaanbaatar

Abbreviation	Meaning
UN	United Nations
UNDP	United Nations Development Program
UNFCCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations Children’s Emergency Fund
WWF	World Wildlife Fund
ZE	Zero Emissions
CCA	Climate change adaptation
CCM	Climate change mitigation
ESG	Environmental, Social and Governance
SDG	Sustainable Development Goal
DFI	Development finance institutions

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CONTENTS

1. INTRODUCTION

ADB Green Finance KSTA

The Asian Development Bank (ADB) approved the KSTA for the Green Finance Policy Framework in Mongolia in in November 2019. The KSTA aims to support the Government of Mongolia in advancing the green finance policy and regulatory framework and in undertaking capacity development to enhance capability to develop green finance projects and products.

Since 2019, the Mongolian green finance regulatory environment has witnessed some developments. For instance, the Mongolian Government have adopted several legislative changes encouraging introduction or scale-up of green finance products such as green bonds or green insurance (2021). In addition, regulatory and policy documents – most important of which is "National Green Taxonomy" (2019) - have been adopted by various Mongolian authorities. Other recently published documents include "Mongolia Sustainable Finance Roadmap" and "ESG & Sustainability Reporting Guidance for Mongolian Companies" (both adopted in 2022).

The Mongolian Sustainable Finance Roadmap 2022:

The objective of the roadmap is "to agree on an integrated, multi-stakeholder, strategic approach towards accelerating the development of a sustainable financial system in the country by 2030 in alignment with Mongolia's sustainable development and climate targets, including targets in Vision-2050. The specific goals of the roadmap are to increase green lending to 10% in the banking sector and 5% in the non-bank financial sector by 2030.The Roadmap defines six pillars and 24 strategic actions that will help transition Mongolia's financial system into a sustainable one.

Adoption of these legal, regulatory and policy documents has led some of the local stakeholders such as Mongolian Sustainable Finance Association (MSFA) and international partners of the Mongolian Government to step up efforts to achieve objectives and goals set out in these documents. **One such initiative prioritized by Mongolia is to mobilize green finance in the country through issuance of Green Bonds,** and this report provides a detailed guidance (with case study examples) to enable various stakeholders to work towards that objective.

Objective of the Report

This Report aims to achieve two primary objectives as part of the KSTA:

1. Review of Green Bond guidelines in Mongolia and recommend updates/ enhancements needed in the guidelines (or associated taxonomy) as per the international best practices
2. Provide guidance on the preconditions for Green Bond issuance and the process of issuance as it relates to roles relevant service providers and the obligations of the issuer.
3. Provide guidance for the external verification process for such green bonds, which potential issuers need to understand as a key element of the green bond issuance proves.

This report is intended focuses on those elements of a Bond issuance which are different between a conventional issuance and a green bond issuance; and hence, will be a very useful guide for potential green bond issuers to take next steps in raising finance through this modality.

Below mentioned areas are covered as pert of this report across various chapters.

Chapter	***Description***
Setting the Context	This chapter sets the context for Green Bonds, underlying various types of green bonds and key considerations by potential issuers in Mongolia before embarking on the journey to raise green finance through this modality.
Green Bonds in Mongolia	This chapter provides an assessment of existing policy & regulatory framework for Green Bonds in Mongolia, including green bond guidelines, the corporate debt issuance market & regulation, and ESG & Sustainability Reporting Guidance.
Green Bonds – Issuance Process	This chapter provides step-by-step process for green bond issuance across the three key phases, namely pre-issuance, issuance and post-issuance process; and preparatory steps to be taken by potential issuers like corporate governance framework and Green Bond framework.
Green Bonds – External Review & Verification	This chapter provides detailed description of external review and verification process for Green Bonds across the lifecycle, including types of reviews, purpose and list of agencies/ advisors for completing such reviews.
Recommendations and Next Steps	This chapter provides key KSTA recommendations and next steps to enable issuance of green bonds in the country, including recommended enhancements in Green Bond Guidelines & Taxonomy of Mongolia, steps for key institutional agencies and next steps for potential issuers of green bonds in the country.

2. SETTING THE CONTEXT

2.1. Types of Green Bonds

Green Bonds are any type of bond instrument where the proceeds or equivalent amount will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects and which are aligned with the four core components of the Green Bond Principles" (ICMA, Green Bond Principles, 2021 Edition).

Green Bonds can be issued in different forms. There are Green Revenue Bonds, Green Project Bonds and Green Securitized Bonds, as well as Sustainability Bond and Sustainability-linked Bonds. By far the most commonly issued Green Bond is the Standard Green or Sustainable, Use of Proceeds Bond, defined by ICMA as 'a standard recourse to the issuer debt obligation aligned with the Green Bond Principles (GBPs).[1]

Type of Green Bond	***Definition***	***Example Issuers in Asia***
Green Revenue Bonds	Bonds that finance environmentally friendly revenue-generating projects, such as renewable energy facilities or water treatment plants.	• Japan Railway Construction, Transport and Technology Agency's Green Bond issued in 2019. • China Construction Bank's Green Bond issued in 2020.
Green Project Bonds	Bonds that finance specific green projects, such as wind or solar power plants, green buildings, or sustainable agriculture projects.	• AC Energy Finance's Green Bond issued in 2019 to finance renewable energy projects in the Philippines. • Sindicatum Renewable Energy's Green Bond issued in 2018 to finance renewable energy and energy efficiency projects in Southeast Asia.
Green Securitised Bonds	Bonds that are backed by a portfolio of assets, such as renewable energy or energy-efficient loans, that meet certain environmental criteria.	• MUFG Bank's Green ABS issued in 2019, which securitized a portfolio of loans for energy-efficient homes in Japan. • Shenzhen Energy's Green ABS issued in 2019, which securitized a portfolio of renewable energy and energy efficiency loans in China.
Sustainability Bonds	Bonds that finance both green and social projects, including education, healthcare, and	• City Developments Limited's Sustainability Bond issued in 2020 to finance green and social projects in Singapore.

1 See Appendix 1 for further detail

Type of Green Bond	*Definition*	*Example Issuers in Asia*
	affordable housing.	• State Bank of India's Sustainability Bond issued in 2021 to finance renewable energy and affordable housing projects in India.
Sustainability-linked Bonds	Bonds that have financial incentives or penalties tied to the issuer's performance on predetermined environmental, social, or governance (ESG) targets.	• Singapore Exchange's Sustainability-linked Bond issued in 2021, which was tied to the company's ESG performance. • Siam Cement Group's Sustainability-linked Bond issued in 2021, which was tied to the company's carbon reduction targets.

The primary focus of this document Is **Use of Proceeds Bonds**, unless specifically mentioned otherwise. The vast majority of green bonds issued to date globally have been standard use of proceeds bonds; but Increasingly corporates are issuing sustainability linked bonds and this acceleration Is expected to continue.

The selection of a particular bond structure and recourse is a matter for detailed financial management consideration, alongside consideration of the objective of the bond (general or specific) and the nature of underlying assets, projects or activities to be financed (whether these are capital items, and whether these have a certainty of revenue generation).

There are also technology, finance and credit risks that will play a critical role in these financial design decisions, as well as limitations and requirements placed on the issuer by Companies Act regulation[2] and requirements for debt disclosure.

[2] Law of Mongolia on Companies. This law was adopted by the State Great Khural (Parliament) of Mongolia on 6 December 2019 and became effective on 1 February 2021

2.2. Key Considerations for Issuers

Before an issuer issues a corporate Green Bond, it is useful to do the following:

- Consider the opportunities and challenges associated with bond issuance.
- Understand how Green Bonds may be positioned within established corporate functions, governance procedures and operations, and within existing regulatory and mandate specifications..

The issuer should also note the following:

1. Many of the typical disadvantages of traditional bonds and long-term corporate debt also apply to Green Bonds, because the foundations of the instruments are the same.
2. Many of the advantages and disadvantages of Green Bonds for non- corporate actors similarly apply to corporates, because the instrument opens up a realm of sustainability considerations both opportune and challenging for those undertaking a new approach and integrating environmental, social and governance considerations into financing and investment decision-making.

The opportunities and challenges associated with Green Bonds are subject to a wide variety of factors, including financial market conditions; institutional structures and the capacities of the issuing issuer; the financial state of issuer, including its creditworthiness as expressed by its credit rating ; the type of projects to be funded; the strength of investor relations; and, to a lesser degree, the communications strategy around sustainability matters, governance and the issuance in particular

There are initial costs (e.g. development of the issuer framework, establishment of monitoring and evaluation processes, external review provider services), and resourcing effort needed. These are typically one-off costs that should be factored into consideration of the financial instrument. However, these costs should be weighed against the potential financial and non-financial benefits that may be accessed.

While Green Bonds may not demonstrate clear pricing benefits compared to vanilla options, they can have positive reputational and organizational impacts that go well beyond the immediate coupon rate.

Sustainable bond issuance entails many different functions and operations that must work together in a coordinated fashion. The corporate Green Bond framework that must be developed to accompany a sustainability issuance operates as the overarching guiding procedural and communications tool, both inside the issuer and externally for investors and other stakeholders.

3. GREEN BONDS IN MONGOLIA

3.1. Mongolia Green Bond Guidelines – Overview

The Mongolian Green Bond guidelines refer to international standards such as the International Capital Market Association's (ICMA) Green Bond Principles (GBP) and the Climate Bonds Initiative's (CBI) Climate Bonds Standards (CBS).

The figure below provides a summary of key aspects covered in the existing Green Bond Guidelines of Mongolia,

Figure 1: Green Bond Guidelines – Mongolia

ELIGIBLE PROJECTS	USE OF PROCEEDS	REPORTING AND VERIFICATION	GOVERNANCE AND MANAGEMENT
• The Mongolian Green Bond guidelines provide a list of eligible green projects that are considered environmentally sustainable, such as renewable energy, energy efficiency, sustainable transport, waste management, and sustainable water and land use.	• The guidelines require that the proceeds from the green bond issuance be used exclusively for eligible green projects as defined in the guidelines. The issuer is also required to disclose the allocation of proceeds in a transparent manner.	• The guidelines require issuers to report on the use of proceeds and the environmental impact of the eligible green projects. The issuer must also engage a third-party verifier to ensure that the projects meet the environmental criteria as defined in the guidelines.	• The guidelines require issuers to establish an internal green bond framework to ensure the effective management of green bond proceeds and compliance with the guidelines. The issuer is also required to disclose information on the governance and management of the green bond issuance.

The Mongolian Green Bond guidelines provide a framework for issuers to issue green bonds that meet international standards and promote environmental sustainability. The guidelines provide clear criteria for eligible projects, use of proceeds, reporting and verification, and governance and management. The Mongolian Green Bond guidelines provide a consistent framework for issuers which are aligned clearly and intentionally with ICMA. However, there are some areas for improvement which have been provided as part of the recommendations later in this Report.

3.2. Corporate Bond Issuance

The Securities Market Law, Mongolia has no definition of the term “bond,” while corporate bonds are termed “corporate debt instruments” under the law. Corporate Debt Instruments For corporate debt securities, there are specific requirements for public offering of debt instruments in Article 16 of the Securities Market Law (amended in May 2013, effective January 2014)[3]. The Securities Market Law restricts the total value of publicly offered debt instruments to be not more than the value of its net assets or the sum of the value of its net assets and value of third-party guarantees. In addition, the listing rules of an exchange have specific clauses regarding debt securities such as Section 14 of the MSE Securities Listing Rules (amended 25 January 2018) and Sections 15–19 of the MSX Listing Rules (approved 24 May 2018).

According to the MSE Listing Rules, the issuer for debt securities shall meet the criteria for MSE Board II listing requirements, which are a minimum of 2 years of operations and audited financial statements, net profit of no less than MNT100 million, or sufficient working capital to operate for more than 12 months.

If the issuer does not meet the criteria for MSE Board II listing requirements, then the issuer needs to be either fully guaranteed by the government or hold sufficient collateral assets to guarantee full repayment of the principal and interest payments, or the debt security needs to be insured by more than 80% of its total value. In addition, the listing rule requires that there shall be no restrictions on the free movement and trading of the debt securities, such as being locked for collateral pledge. For the MSX Listing Rules, there are no specific requirements for debt securities, except for a minimum 3 years of operation required from the issuer.

In Mongolia, corporate bonds or corporate debt securities normally mean publicly offered securities registered at the central securities depository regulated by the Securities Market Law. Therefore, privately placed corporate debt instruments are unregulated. Public offerings of corporate debt instruments are regulated by the FRC, as per the Securities Market Law and the Company Law. The detailed regulatory process is outlined in Regulation on Securities Registration of the FRC (amended as per Resolution No. 408 on 23 November 2015).

In addition, public offerings of corporate debt securities (referred to as open or listed) are regulated by the Listing Rules and Trading Rules of the exchange. The listing of corporate debt securities is regulated under the MSE’s Listing Rules. Privately placed corporate debt instruments (referred to as closed) are beyond the scope of the Securities Market Law and hence follow the Company Law. As the Securities Market Law regulates and defines securities in general, and privately placed corporate debt instruments are generally issued in practice with a purchasing agreement between the issuer, underwriter, and investors, these privately placed debt instruments are not be deemed securities under the current regulations.

However, if the privately placed corporate debt instruments are registered at a regulated securities depository entity (MCSD or a custodian), which are regulated by the FRC, then the debt instruments can be deemed as securities under the Securities Market Law. As per the law, registration at a depository entity counts as legal proof of ownership of the securities.

However, if a corporate issuer was to offer unregulated (non-listed) securities to development funders on the basis of for example Use of Proceeds – Green Bond, this would not obviate the need to abide by the accepted norms and rules governing the Green Bond issuance processes.

3 Source: Bond market Guide for Mongolia, ADB Feb 2021: https://www.adb.org/publications/bond-market-guide-mongolia

3.3. ESG & Sustainability Reporting Guidance

ESG & Sustainability Reporting Guidance for Mongolian Companies was published by FRC, MSE and others in 2022. It contains a set of guidelines to help Mongolian listed companies, prospective issuers and other interested companies to disclose their sustainability practices. In addition, it offers an overview of global sustainability reporting frameworks and trends, followed by an eight-step outline of how Mongolian listed companies and other issuers can build the capacity to report on sustainability. The Guidance suggests a set of key ESG indicators - ranging from Environmental Indicators to Social Indicators to Industry-specific Indicators - that Mongolian companies should consider reporting on and provides practical resources that companies can explore when preparing their sustainability reports.

MSE-listed companies are expected to submit their first sustainability reports in 2023. Listed issuers are encouraged by the regulators to refer to the Guidance in the implementation of sustainability practices, as well as annual reporting. Entities that are not listed on the MSE can also use the Guidance as a guide to assess their sustainability reporting practices and identify and address any gaps.

4. GREEN BOND – ISSUANCE PROCESS

Undertaking a Green Bond's issuance is a pioneering activity that can have substantial reputational benefit for an issuer. The space for signalling sustainability practices through such pioneering issues is far from saturated. However, embarking on the process of Green Bond issuance requires the issuer to dedicate resources to configuring and implementing the necessary direct and supportive processes and systems and building capabilities and capacity, for a robust, well-managed issuance.

Green Bonds could provide an innovative means to mobilize private capital towards green and social investing and reduce threats to sustainable corporate projects due to lack of financing. Green Bonds also offer the opportunity for capital diversification. Intrinsic to evaluating the suitability of a Green Bond is understanding the financial need and cost efficiency of the instrument by comparing it against other financing options.

4.1. Policy Guidance

There are international standards and supporting frameworks that have been developed and are now widely used and accepted that represent investor and market expectations and articulate good practice for raising Green Bonds, using and managing the proceeds, and reporting to investors on the financing activities and impacts of these types of bonds. When an issuer uses a sustainability label to name its bond, it is increasingly expected that the issuer has adopted one of these international standards.

In Mongolia, while it is a not regulatory requirement to adopt and comply with specific international standards, practically one cannot issue a Green Bond without reference to this compliance. The four major international frameworks for use of proceeds of green, social and Green Bonds are as follows:

1. International Capital Market Association (ICMA) Green Bond Principles (GBP)[4];[5]
2. ICMA Social Bond Principles (SBP);
3. ICMA Sustainability Bond Guidelines (SBG); and
4. Climate Bond Initiative (CBI) Climate Bond Standards (CBS) and certification scheme.

A Green Bond issuer is expected to develop a Green Bond framework, which typically address the five core components, responding in each section to the requirements of the standard (or going

4 Since the original publication of the Green Bond Principles (GBP) in 2014, and the subsequent releases of the Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG), the Sustainability-Linked Bond Principles (SLBP) and the Climate Transition Finance Handbook, market participants have sought additional information on how to interpret this guidance especially for its practical application for transactions, as well as in the context of market developments and complementary initiatives. The Executive Committee with the support of the Secretariat published in June 2019 an up-to-date edited compendium of the former Q&A in a "Guidance Handbook" organised thematically. The version published in June 2021 reflects the publication of the newly established SLBP and the Climate Transition Finance Handbook, as well as updated versions of the GBP, SBP, and SBG, published in 2021 and contains additional responses relating to sustainability-linked bonds and climate transition finance. An updated version published in January 2022 has refined the answer to the question on buying back conventional Green, Social or Sustainability Bonds with proceeds of a new Green Social or Sustainability bond and moved it from the section "Use of Proceeds" to the section "Management of Proceeds".

55 See Appendix 2 for the ICMA eligibility criteria beyond these requirements in terms of commitment and/or detail). Issuers are also expected to capture in their frameworks the following additional details:

- The issuer's overall sustainability strategy; and
- The issuer's approach to impact reporting (as part of reporting).

The standards set out, in fairly clear terms, the minimum requirements of Green Bond issuers, as follows.

1. **Develop and implement a Green Bond framework.** The Green Bond framework establishes the governance and management activities the issuer will undertake in relation to the Green Bond. The framework is typically made public when or before the Green Bond is issued. It is communicated to key stakeholders (at a minimum, the stock exchange, investors and the independent reviewer as part of their review).
2. **Develop and implement a supporting procedural environment.** The Green Bond framework is often supported by more detailed procedures and should refer to these procedures even if they are not made public. The framework and procedures serve to regulate the specific activities the issuer must perform to manage the Green Bond, including managing bond proceeds; identifying, monitoring and evaluating the sustainability impacts of projects; and reporting. Sometimes these procedures predate the framework (i.e. they are already existing in the organization); however, this might not be the case for all corporates. It is important to enhance existing procedures when they do not meet the minimum requirements set out by the Green Bond standards, and to implement these enhancements effectively in organizational processes.
3. **Perform activities** and functions in accordance with the Green Bond framework and procedures.

4.2. Green Bonds – Issuance Costs

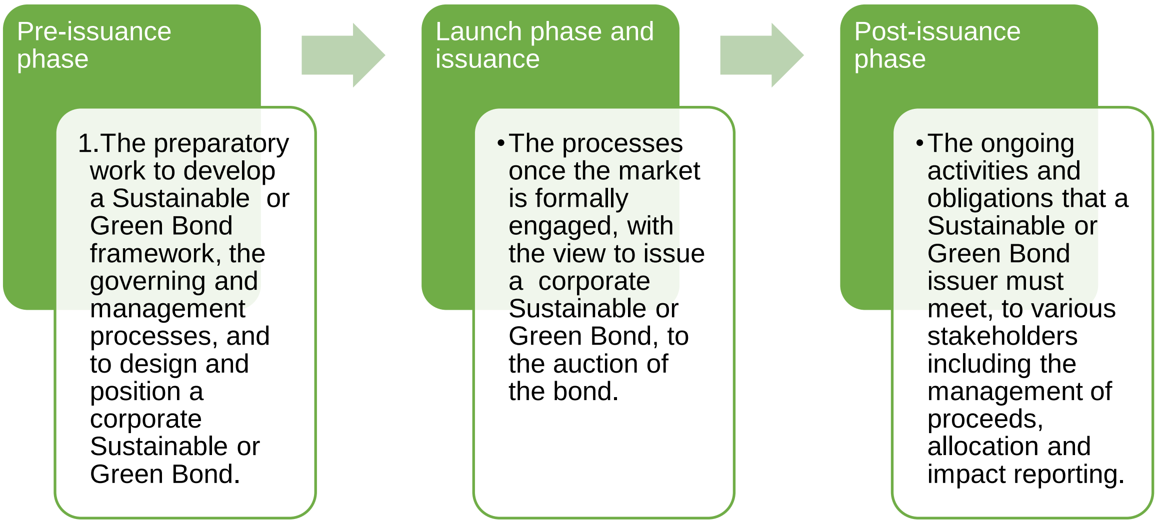
Compared to other debt instruments, green bonds generally tend to be associated with more administrative components than conventional bonds, which in turn leads to higher transactional fees and additional administrative fees. These costs include corporate advisor fees and expenses, bond counsel fees and expenses, underwriter discounts, bond insurance premiums, rating agency fees and registration costs, AND implementation of additional tracking, monitoring and reporting processes along with up-front investment to define the bond's green criteria and sustainability objectives. Proper impact projections and evaluations require in-house competency – and possible specialist support.

The above are typically one-off costs that should be factored into consideration of the financial instrument. However, these costs should be weighed against the potential financial and non-financial benefits that may be accessed.

4.3. Green Bonds – Issuance Process

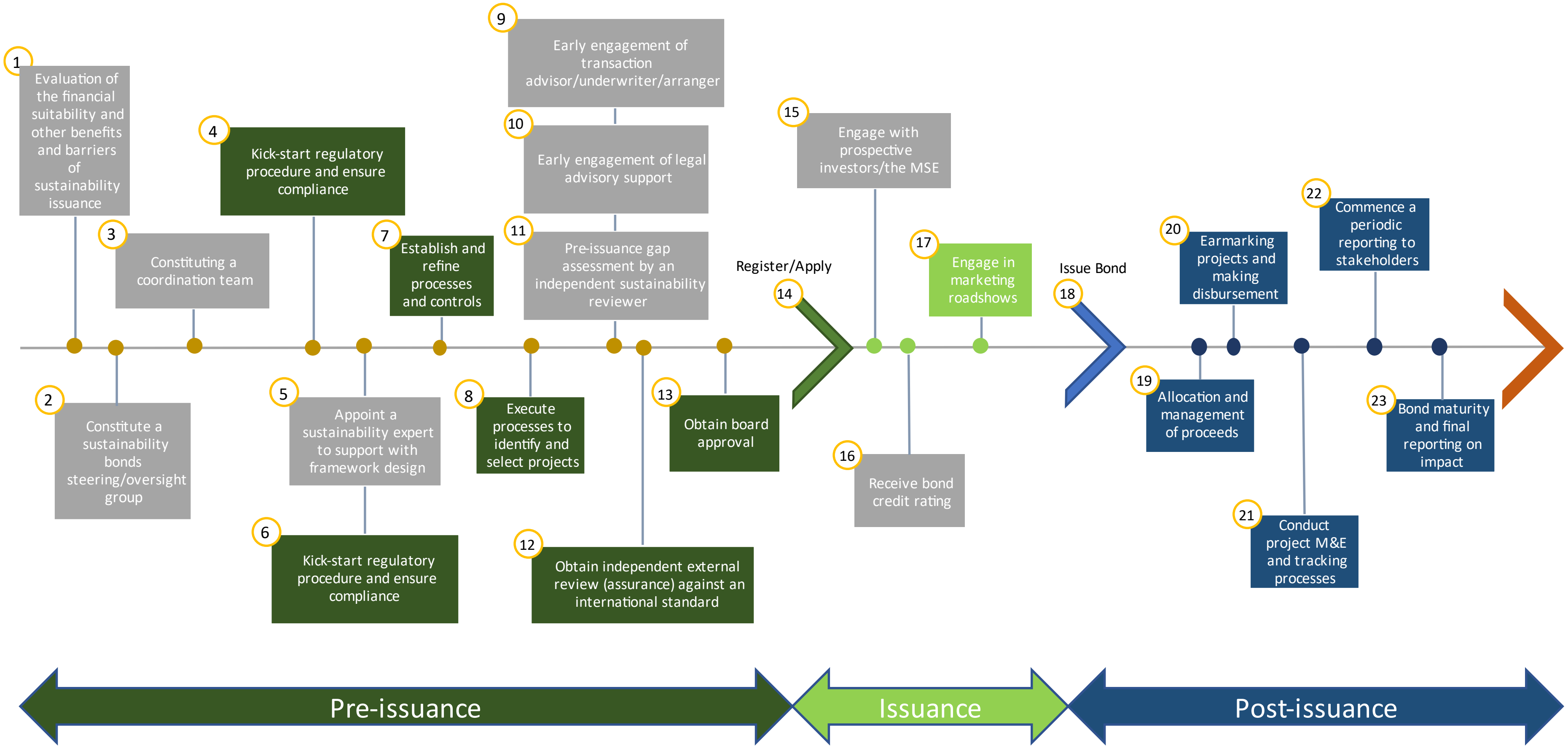
This chapter provides a detailed understanding of issuance process for Green Bonds. There are broadly three phases of issuance of a green bond, as depicted in figure below. Some of the steps are not required but are recommended as good practice and provided as guidance to corporate issuers.

Figure 2: Green Bonds – Issuance Process



The above-mentioned steps are also presented in a diagrammatic format on next page.

Figure 3: Green Bonds - Steps for Bond Issuance Process



4.4. Corporate Governance Framework

Steering Committee

Establishing a Green Bonds Steering Committee is critical as planning for, issuing and managing Green Bonds requires effective cooperation across an organization in order to deliver on functions including, but not limited to the following:

- Corporate management;
- Treasury and financial management;
- Strategic planning functions;
- Governance and operational support;
- Service delivery and economic development;
- Departments concerned with service delivery, social development, environmental management, electricity, waste, water and sanitation, housing, etc.;
- Legal counsel;
- Procurement;
- Information technology services;
- Internal audit; and
- Investor and public relations.

Constituting a Green Bonds steering committee is recommended and good practice to support coordination across these multiple functions in an efficient way and to provide suitable oversight and support to the process.

The steering committee membership should include:

- Actors who understand the financial aspects and those who understand the sustainability aspects of Green Bonds; and
- Sufficiently senior representation to make effective decisions concerning the corporate Green Bond and to give direction to the different functional participants who must execute the tasks of preparing, issuing and managing the bond.

The steering committee should have a clear role in the corporate Green Bond governance process, with its role specified in the Green Bond framework.

Co-ordination team

Establishing a Coordination Team is also critical: Constituting a coordination team is recommended for issuing a corporate Green Bond. Planning for, issuing and managing Green Bonds requires a great deal of proactivity and can benefit from key actors who take responsibility for driving and delivering the process. This team has a different function than the steering committee. The latter makes selected decisions regarding the bond, whereas the coordination team actually delivers the tasks related to the bond.

These process coordinators are central to the success of issuing a corporate Green Bond:

- They take a key part in developing the Green Bond framework.
- They link the functions together for the supporting procedural definitions.
- They are the central contact points for external service providers (such as the arranger, independent reviewer etc.) and can liaise across the organization.

It is important that the coordinators:

- Have sufficient understanding of the end-to-end corporate Green Bond process to coordinate with other participants regularly and effectively;
- Understand both the financial and sustainability aspects of the underlying projects and the organization's management of these aspects;
- Are sufficiently senior to obtain support from other participants; and
- Have a mandated role and sufficient capacity to drive the corporate Green Bond process.

These coordinators should report to the steering committee.

The below figure provides an example of the Governance Framework for Green Bond issuance in a commercial bank.

Figure 4: Corporate Governance Framework for Green Bonds – Illustration

Source: Stockholm School of Economics for the Green Bond Technical Assistance Program, supported by IFC , UNDP (2021): Green bonds in emerging markets: İşbank (environmental-finance.com)

4.5. Green Bond Framework

Green bonds have the potential to help integrate good project design and management practices and processes deeper into the issuer, but it is important to establish a Green Bond framework and identifying eligible projects can be complex and cumbersome. This difficulty is partly because sustainability metrics have not yet been mainstreamed in designing and communicating the business case and the benefits and/or challenges of corporate projects.

Designing a Green Bond Framework must be done in order to test any activity or expenditure against a transparently published set of objective criteria that are aligned with the relevant taxonomies, corporate impact standards, and those generally accepted in the market.

The Green Bond framework is a necessary procedural document that communicates the issuer's governance and management process. The Green Bond framework is:

- Required by international standards;
- To be reviewed by the independent sustainability reviewer;
- To be disclosed to investors; and
- To be publicly published, such as on the issuer's website and in connection with the Green Bond.

The Green Bond framework should provide as much clarity and substance as possible concerning the process for managing the corporate Green Bond. It should make commitments and state intentions in clear, specific language. These commitments and intentions must be matched in practice once the bond is issued, so the framework should be backed up with robust, transparent, identifiable and dependable processes. Procedures should be documented, and actors identified and informed of their roles.

Typically, the Green Bond framework is a brief document. General practice is to provide an outline of the key parts of the governance and management process and identify the specific underlying procedures relevant to the Green Bond.

The Green Bond framework is typically made up of five parts corresponding to the structure of international standards, plus a sixth part providing situational and strategic content and content related to external reviews. It should cover (as per guidance in the Mongolian Green Bond Principles shown earlier):

1. Introductory Content
2. Use of Proceeds
3. Process for Project Evaluation and Selection
4. Management of Proceeds
5. Reporting
6. External Review :

Case Study: ADB Green and Blue Bond Framework[6]

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6 Link: *https://www.adb.org/sites/default/files/publication/731026/adb-green-blue-bond-framework.pdf*

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        2.1.1. *Climate change mitigation projects*
        2.1.2. *Climate change adaptation projects*
    2.2. *Eligible projects for blue bond financing*
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        2.2.2. *Pollution control projects*
        2.2.3. *Sustainable coastal and marine development projects*
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    3.3. *Projects eligible for blue bond financing*
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Case Study: DBS Green Bond Framework[7]

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It is a requirement of Green Bond issuance that the actual activities, projects and assets to be financed are clearly identified by the issuer in the pre-issuance phase, in line with the eligibility criteria set out in the Green Bond and incorporating Sustainable Projects in corporate plans and budgets .All corporate projects, including sustainable projects, should be subject to initial screening against established frameworks before they can be approved by the corporates.

7 Link: *https://www.dbs.com/iwov-resources/images/sustainability/reporting/pdf/sg-group-pweb-sustainability-pdf-dbs-green-bond-framework.pdf?pid=SG-GROUP-PWEB-MEDIA-PDF-sg-group-pweb-sustainability-pdf-dbs-green-bond-framework*

5. GREEN BONDS - EXTERNAL REVIEW & VERIFICATION

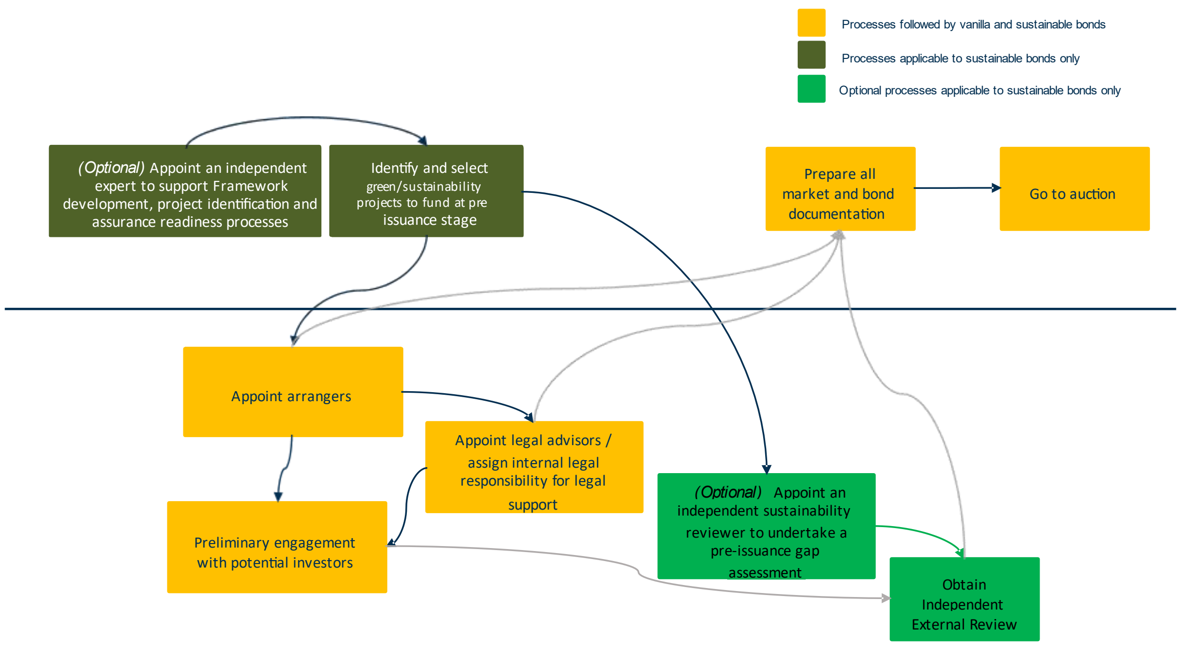
5.1. Role of External Review & Verification

International sustainability bonds standards strongly encourage external reviews by an independent party to improve transparency and credibility of the label. Issuance will require an independent sustainability review by a suitably qualified and experienced independent party appointed by the issuer.

External review introduces additional costs but benefits the issuer and is advised. Typically, independent reviews are conducted at the pre-issuance stage and consider the bond framework and the prospective bond. The external review may lend credibility and transparency to an issuance and enhance benefits in the marketing and issuance process. However, during post-issuance, further and regular independent reviews can be undertaken. Some international Green Bond standards require at least a single instance of post-issuance assurance; others do not require it but encourage it as good practice.

The figure below provides the role of external review and verification in the Green Bond issuance process.

Figure 5: Green Bond external service providers



Best practice at this time involves post-issuance assurance within a year of the bond auction, and regularly thereafter for the tenor of the bond. These reviews should address the following:

- Use of proceeds (also referred to as verification of the allocation of proceeds); and
- Actual achieved impacts of the underlying assets and projects and reporting on those impacts to bondholders and other relevant stakeholders (such as the stock exchange, a relevant standards body or the public – as would be good practice for corporates).

5.2. Transaction Advisor /Arranger

Arrangers are investment banks and advise on the viability of an issuance and are expected to take the lead on every aspect of the transaction. They engage potential bond investors, formally or informally, to determine appetite for investment, appropriate pricing, and determine information required by investors to make investment decisions. Their expertise is important in a Sustainability Bond. Test potential pricing implications (generally, but also considering the bond's 'sustainability' label) and support engagement with a wider spectrum of potential investors (with interest in sustainability. They will also negotiate sustainability covenant expectations from investors including sustainability credentials in investor marketing and communications.

Generally, it is recommended that issuers and their arrangers begin engaging relevant investors well in advance of bond placement. This could include informal engagements with potential investors ahead of undertaking targeted roadshows, as roadshows often occur just before final pricing.

5.3. Types of Independent Reviews

There are generally four types of external review report[8], namely

1. second-party opinion,
2. verification,
3. certification, and
4. green rating.

Each green bond can have just one or several types of external review. External reviewers are usually independent research institutions dedicated to environmental research such as the Center for International Climate Research (CICERO) and ISS-Oekom. They examine the alignment of green bonds with the GBPs, or evaluate greenness based on their specific criteria and methodologies. These external reviewers are intended to facilitate communication between investors and issuers, and thus contribute to a healthy and prosperous green bond market.

The type of external review a issuer is to obtain at the pre-issuance and post issuance phase is determined by the specifications in the Green Bond framework and the requirements of the international standard the issuer has selected (e.g. ICMA GBP; CBI's CBS).

Second Party Opinions (SPOs)

Second-party opinions (SPOs) are the most popular external reviews for green bonds. A Climate Bonds Initiative survey of Group Treasurers[5] found that 85% of External Reviews commissioned were in the form of SPO(IFC 2021). Some major providers of SPOs are CICERO, ISS-Oekom, DNV and Sustainalytics. SPOs are usually detailed and comprehensive, providing a thorough analysis of the four core components of the GBPs and other related issues. An SPO released by CICERO mainly contains a description and an assessment of the issuer's green bond framework, rules, and procedures for climate-related activities.

The assessment part of the report comprises strengths, weaknesses, and pitfalls of the green bond framework. Moreover, some SPOs even provide a broad qualitative indication of the true greenness of green bonds. For instance, CICERO's SPOs are graded into several shades, namely 'dark green', 'medium green', 'light green', and 'brown', indicating the possible environmental impact of the green bond and the robustness of the issuer's governance structure that supports the framework. According to CICERO's criteria, 'dark green' is only awarded to green projects and solutions that represent the best way to realize the long-term vision of a climate-resilient future.[9]

8Dorfleitner, G., Utz, S. & Zhang, R. The pricing of green bonds: external reviews and the shades of green. Rev Manag Sci 16, 797–834 (2022). https://doi.org/10.1007/s11846-021-00458-9
9 Ibid

5.4. Pre-issuance Reviews

The pre issuance external reviewer will likely provide the following two documents to the green bond issuer.

Interim Report

This is addressed to management and for management's attention. There may be a range of findings covered in the report, from serious (or material) to relatively minor. The opportunity for management to react to and remedy the findings and issues. Management should endeavour to address the findings through improvements to the framework or procedures etc., and to particularly address any material findings or issues (or gaps in the framework or procedures). If these remain unaddressed, the final external review report will document these issues and may be unfavourable in terms of the Green Bond and prospective issuer.

Final Report

This can be either a verifier's report, second-party opinion or assurance report, depending on the type of review conducted. This final report is to be made public and provided to prospective investors.

Table 1: Pre-issuance Reviews.

TYPE OF REVIEW	WHAT IT COVERS	SERVICE PROVIDERS
Third party Assurance	Assurance reports state whether the green issuance is aligned with a reputable international framework, such as the Green Bond Principles (GBP) or Green Loan Principles (GLP)	Accounting / audit firms
Second Party Opinion (SPO)	SPOs provide an assessment of the issuer's green bond framework, analysing the "greenness" of eligible projects/assets. Some also provide a sustainability "rating", giving a qualitative indication of aspects of the issuer's framework and planned allocation of proceeds	Environmental Social Governance (ESG) service providers (such as Oekom, Sustainalytics, Vigeo Eiris, DNV GL) and scientific experts (such as CICERO, CECEP Consulting). Other environmental consultants and assessment organisations.
Green Bond Rating	A number of rating agencies assess the bond's alignment with the Green Bond Principles and the integrity of its green credentials	Rating agencies such as Moody's, S&P Global Ratings, JCRA, R&I, RAM Holdings
Pre-issuance verification of the Climate Bonds	The Climate Bonds Standard is the only Paris Agreement aligned standard available in the market.	Verifiers approved by the Climate Bonds Standard and Certification Scheme

TYPE OF REVIEW	WHAT IT COVERS	SERVICE PROVIDERS
Certification according to the Climate Bonds Standard	Independent verification confirms that the use of proceeds adhere to the Climate Bonds Standard and sector specific criteria (e.g., Low Carbon Transport)	
Third Party Assurance	Assurance reports state whether the green issuance is aligned with a reputable international framework, such as the Green Bond Principles (GBP) or Green Loan Principles (GLP)	Accounting / audit firms

5.5. Post-issuance Reviews

Generally, the same external reviewer provides pre-issuance and post-issuance services, using this perspective _ to evaluate effective implementation of the processes and controls documented at the pre-issuance phase. The fees for the external review will depend on the scope and nature of services provided – that is, whether only a pre-issuance review is required or pre- and post-issuance reviews; and whether validation of impact reporting is included in the scope.

Table 2: Post-issuance Reviews.

TYPE OF REVIEW	WHAT IT COVERS	SERVICE PROVIDERS
Second party or third party assurance report	Assurance of allocation of proceeds to eligible green projects.	Audit firms, ESG research service providers (Oekom, Sustainalytics) and scientific experts
Impact reporting	Reporting that seeks to quantify the climate or environmental impact of a project/asset numerically	Issuer, Audit firms, ESG research service providers (Oekom, Sustainalytics) and scientific experts
Post-issuance verification of the Climate Bonds Certification according to the Climate Bonds Standard	Assurance against the Climate Bonds Standard, including the allocation of proceeds to eligible green projects and types of green projects	Verifiers approved by the Climate Bonds Standard and Certification Scheme

The vast majority of issuers that report impacts only do so post-issuance.[10] Those that only report at issuance tend to be considerably smaller. Reporting at both stages is best, otherwise just post-issuance.

Regardless of whether impacts are disclosed at issuance, and projects are being refinanced, impact reporting should also occur post-issuance, as long as the projects are operational and impacts are ongoing. This applies even if the impacts reported at issuance cover the full projected lifetime of the project, since at that point they would necessarily be expected, and actual/ex-post impacts for future periods could be reported post-issuance; if there is no change versus expected impacts disclosed at issuance, issuers could still publish a statement clarifying this.

CBI notes that providing post-issuance impact reporting should be the priority for issuers. Providing disclosure at issuance to support this is even better, but if so issuers should take care to clearly explain the period the impacts refer to (and thus whether they are ex-ante or ex-post), and confirm that post-issuance disclosure will also be provided. This is in line with the guidance from ICMA.

10 CBI, Post Issuance reporting Report 2021

Case Studies

China Construction Bank – Green Bond Post-Issuance Report[11]

In this report, China Construction Bank provides information on the use of proceeds from its green bond issuance, as well as an update on the environmental impact of the projects financed by the bond. The report also includes details on the bank's green bond framework and its alignment with international standards.

Tata Cleantech Capital Limited - Green Bond Impact Report[12]

Tata Cleantech Capital Limited's report provides an overview of the environmental and social impact of the projects financed by its green bond issuance. The report includes detailed information on the specific projects that were funded and the positive impact they have had on sustainability and climate change.

Tenaga Nasional Berhad - Green Bond Annual Report[13]

This report provides a comprehensive update on Tenaga Nasional Berhad's green bond program, including information on the use of proceeds and the environmental impact of the projects financed. The report also includes a detailed assessment of the company's green bond framework and its alignment with international standards.

[11] http://www.ccb.com/en/investorv3/greenbond/20210429_1619687957.html

[12] https://www.tatacapital.com/content/dam/tata-capital/pdf/media-center/press-release/2018/Press%20Release%20-%20Green%20Bond.pdf

[13] https://www.tnb.com.my/suppliers-investors-media-relations/sustainability-report

6. RECOMMENDATIONS and NEXT STEPS

6.1. Green Bond Guidelines

The Mongolian Green Bond guidelines provide a consistent framework for issuers which are aligned clearly and intentionally with ICMA. However, there are some areas for improvement which have been listed below:

Limited Eligible Projects

The current guidelines have recourse to a limited list of eligible green projects, which may not cover all potential green investments. To expand the green bond market in Mongolia, the eligible project list in the Taxonomy could be expanded to include more sectors, such as sustainable agriculture or sustainable forestry. Please refer to next section for specific recommendations with regards to the Taxonomy, to complement the green bond issuance process

Lack of Specific Environmental Criteria

The current guidelines do not provide specific environmental criteria for each eligible project. This could lead to a lack of consistency and comparability among green bonds issued in Mongolia. To address this, the guidelines could be revised to provide more specific environmental criteria for each eligible project.

Third-party Verification

While the guidelines require third-party verification, it is not clear which third-party verification standards are acceptable. To ensure consistency and comparability, the guidelines could specify the thresholds for acceptable third-party verification standards.

Governance and Management

The guidelines do not provide specific requirements for governance and management of the green bond issuance. This could lead to inconsistent practices among issuers. To address this, the guidelines could provide specific requirements for governance and management, such as the establishment of a green bond committee or the appointment of a green bond coordinator and the thresholds or minimum standards for these processes.

6.2. Green Taxonomy

An established taxonomy from an international standard, or the Mongolian Taxonomy can be useful in helping a prospective Mongolian issuer define its eligibility and exclusion criteria. However, the Mongolian Taxonomy has a number of deficiencies in the actual practical application as it lacks technical screening criteria on which to base the evaluation:

- Mongolian Taxonomy necessitates high-level alignment for I CCM and CCA, (ii) pollution prevention, (iii) resource conservation, and (iv) livelihood enhancement.
- The use of international standards, such as ESG standards, and local standards, such as Sustainable Finance Principles, is extensive.
- However, there are no technical criteria in general. There is no mention of an industry classification code. Instead, the activities are classified according to general technology types (generation, construction, manufacturing, conservation, recycling etc.)
- There are no designated transition activities. However, the activities are subject to review every 3-5 years based on "policy shifts, scientific developments, technological changes, and new industry needs in the green finance space."

As a result, the Taxonomy is now being expanded to become the SDG Finance Taxonomy, but details are not yet available. The respective indication of what is green is also left to be highly subjective and a voluntary classification exists as opposed to a reference set of criteria. No specific requirements or guidelines as to “green”, “towards green” or compliance to a specific green reference framework are provided.

To satisfy international development or commercial fixed income investors, it is recommended that any issuance abide by an accepted international standard as a its primary compliance benchmark. For use of Proceeds issuance ICMA provides a Green Project Mapping (ICMA, 2019)[14], which identifies project categories that have relevance to key environmental objectives.

There are more detailed classification methodologies available internationally, underpinned by greater detail and even specific technical standards:

- International Development Finance Club Common Principles for Climate Mitigation Finance Tracking,
- European Union (EU) Taxonomy for Sustainable Activities, and
- the CBI Taxonomy, amongst others. The CBI Taxonomy is the foundation used by the Climate Bonds Initiative to screen bonds to determine whether assets or projects underlying an investment are eligible for green or climate finance. Where detailed analysis of a sector has been undertaken and specific eligibility Criteria have been developed, bonds in that sector can be Climate Bonds Certified. This is indicated via a blue ‘Climate Bonds Certification tick

Ultimately, it is the investor requirements that drive the greater technical detail in measurement and assessment of compliance with green taxonomy or common market standards. Investors have become more sophisticated and it is unlikely that reference to inclusion of the activities defined as Green in term of the Mongolian Taxonomy will be sufficient to satisfy them.

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14 See Appendix 2: Green Eligibility Guide – ICMA

In conclusion, the Mongolian Green Taxonomy can be useful for the issuance of green bonds in Mongolia because it provides a clear and standardised framework for identifying eligible green projects. The taxonomy can help ensure that green bond proceeds are used for environmentally sustainable purposes.

However, without technical screening criteria for the use of green bond proceeds in the Mongolian Taxonomy, there is a risk of greenwashing, in which funds raised through the green bond are not used for truly green projects. This has the potential to undermine the credibility of Mongolia's green bond market and erode investor confidence in green bonds issued there. Furthermore, without technical screening criteria, accurately measuring and reporting on environmental impacts can be difficult.

6.3. Green Bonds – Institutional Framework

The FRC (Financial Regulatory Commission) and BOM (Bank of Mongolia) are two important financial institutions in Mongolia, each with their own distinct roles and responsibilities:

1. Financial Regulatory Commission (FRC): The FRC is an independent government agency responsible for regulating and supervising the non-banking financial sector in Mongolia. This includes insurance companies, securities firms, investment funds, and other financial institutions. The FRC's primary mandate is to promote a stable and transparent financial system in Mongolia by enforcing regulations and ensuring compliance with international standards.
2. Bank of Mongolia (BOM): The BOM is Mongolia's central bank and is responsible for formulating and implementing monetary policy in the country. This includes issuing and regulating the national currency, managing foreign exchange reserves, and providing banking services to the government. The BOM is also responsible for supervising and regulating commercial banks in Mongolia to ensure their safety and soundness.

In summary, while the FRC focuses on regulating and supervising the non-banking financial sector, the BOM has a broader mandate that includes formulating and implementing monetary policy, managing the national currency, and supervising commercial banks.

To improve the regulatory environment for the issuance of green bonds in Mongolia and provide clearer guidance for corporate issuers, the FRC and BOM could take below mentioned steps.

Develop clear and specific Guidelines

The FRC and BOM could work together to develop clear and specific guidelines for the issuance of green bonds in Mongolia. These guidelines should be tailored to the Mongolian context and take into account the unique features of the Mongolian economy and financial system. This Report already provides such guidelines which can be further elaborated if needed & subsequently approved in Mongolia.

Provide Training and Support

The FRC and BOM could provide training and support to corporate issuers to help them understand the guidelines and requirements for issuing green bonds in compliance with Mongolian regulations. This could include training sessions, workshops, and other forms of support to help issuers navigate the regulatory landscape and ensure compliance with applicable regulations.

Establish a Mongolian specific certification process

The FRC and BOM could establish a certification process for green bonds to help provide assurance to investors that the bonds meet certain environmental and social standards and make it clear what the local and international taxonomy and technical thresholds should be. This could involve the creation of a set of criteria for certification, as well as an independent third-party certification process to ensure compliance (as set out in this document).

Encourage transparency and reporting

The FRC and BOM could encourage transparency and reporting by requiring issuers to disclose information about the use of proceeds from green bonds, as well as the environmental and social impacts of the projects being financed. This could help build trust and confidence in the green bond market in Mongolia.

Promote international best practices

The FRC and BOM could promote international best practices for green bond issuance by aligning their guidelines with international standards and guidelines. This could help attract international investors to the Mongolian green bond market and facilitate cross-border investment flows.

By taking these steps, the FRC and BOM could improve the regulatory environment for green bond issuance in Mongolia and provide clearer guidance to corporate issuers on the requirements for issuing green bonds in compliance with Mongolian regulations. This, in turn, could help unlock financing for environmentally and socially beneficial projects in Mongolia and support the country's transition to a more sustainable future.

6.4. Green Bonds – Issuers

The purpose of this report is to provide clear summary guidance on the preconditions for Green Bond issuance and the process of issuance as it relates to roles relevant service providers and the obligations of the issuer. Based on our review of the market and stakeholder discussions, given below are recommendations for issuers of green bonds in Mongolia as next steps.

Establish Governance Structure

Set up Internal governance structure for green bonds, including a steering committee and a co-ordination office. This will enable start by establishing:

1. A clear governance framework that outlines the roles and responsibilities of the steering committee and coordination office.
2. Identifying key stakeholders who will sit on the steering committee, including representatives from the issuer, investors, and relevant third-party organizations.
3. Creating a formal process for decision-making, communication, and reporting within the governance structure to ensure transparency and accountability.
4. Providing training and support to the coordination office to enable them to effectively manage the green bond process, including tracking the use of proceeds and monitoring compliance with green bond standards.. Please refer to Section 4.4 of the Report for details on key elements for such governance structure.

Green Bond Framework

Develop a clear and comprehensive green bond framework. A green bond framework should outline the types of projects that will be financed by the bond, the environmental standards that will be met, and the process for selecting and verifying eligible projects. Please refer to Section 4.5 of the Report for detailed information, along with case study examples.

Engage with external service providers

Potential issuers should start engagement with external service providers, such as green bond consultants, auditors, and verifiers, to ensure compliance with international standards and best practices. These service providers can assist in developing the green bond framework, identifying eligible projects, and verifying the environmental impact of the bond.

Identify Green Projects

Start the process to identify and conduct due diligence to ensure that the projects to be financed by the green bond meet the eligibility criteria set out in the green bond framework. This will require a thorough assessment of the environmental impact and sustainability of the projects.

Obtain external review and certification

To build trust with investors, obtain external review and certification of the green bond framework, eligible projects, and the environmental impact of the bond. The type and service provider used will depend on existing relationships and the internal preference of the organisation. Please refer to Section 5.1 of the Report for the external review and certification process.

Communicate with investors

Develop a comprehensive communication strategy to inform potential investors about the green bond framework, eligible projects, and the environmental impact of the bond. This will help build trust and attract investors to the green bond.

Training & Capacity Building

Given that the market for green bonds is underdeveloped in Mongolia, commercial bank issuers may need to consider capacity building initiatives such as training and education programs for staff and stakeholders, to raise awareness and understanding of green finance and its potential benefits. Examples are set out below:

1. ***Green Finance Fundamentals:*** This training program can provide an introduction to the concept of green finance, including its principles, benefits, and key market trends. It can cover topics such as climate risk, sustainability metrics, and environmental impact assessment.
2. ***Green Bond Issuance:*** This training program can help commercial banks understand the process of issuing green bonds, including the necessary legal and regulatory requirements, the selection of eligible green projects, and the use of proceeds tracking and reporting.
3. ***Environmental and Social Risk Management:*** This training program can focus on how to identify, assess, and manage environmental and social risks associated with commercial banking activities, including green finance projects. It can cover topics such as stakeholder engagement, impact assessment, and due diligence.
4. ***Green Project Appraisal:*** This training program can provide guidance on how to evaluate the feasibility and impact of green finance projects, including the selection of appropriate metrics and evaluation criteria, and the use of tools such as cost-benefit analysis and environmental impact assessment.
5. ***Stakeholder Engagement:*** This training program can help commercial banks understand how to effectively engage with stakeholders, including customers, investors, and regulators, to promote green finance initiatives and build support for sustainability goals. It can cover topics such as communication strategies, stakeholder mapping, and engagement techniques.

7. Appendix

7.1. ICMA Green Bond / Green Bond Programme Information Template

Issuer name:

Date of completion or of latest update:

GBP component 1: Use of proceeds

Please describe alignment with this GBP component:

Please provide related online information if available:

GBP component 2: Process for project evaluation & selection

Please describe alignment with this GBP component:

Please provide related online information if available:

GBP component 3: Management of proceeds

Please describe alignment with this GBP component:

Please provide related online information if available:

GBP component 4: Reporting

Please describe alignment with this GBP component:

Please provide related online information if available:

GBP recommendation: External review

Please describe the alignment with this recommendation:

Please provide related online information if available:

Additional information

Please provide any further information you may deem appropriate:

7.2. Green Eligibility Guide – ICMA

Project Category	***Use of Proceeds***	***Definition/Eligibility criteria / Geospatial Eligibility criteria***
Renewable energy	Development, construction, installation and maintenance of hydroelectricity production facilities	Hydro power below 25MW; and Hydro Power above 25MW with emissions intensity below 100gCO2e/kWh (or a power density greater than 5MW/m2) using the G-res tool (developed by the International Hydropower Association and the UNESCO Chair for Global Environmental Change), or a site-specific assessment in line with the IEA Hydro Framework.
	Development, construction, installation and maintenance of Solar Facilities	Development, construction, installation and maintenance of Solar Facilities (such as Photovoltaic or Thermodynamic plants).
	Development, construction, installation and maintenance of Wind Facilities	Development, construction, installation and maintenance of Onshore Wind Facilities.
	Development, construction, installation and maintenance of Bioenergy facilities (Biomass, Biogas and Biofuels)	Development, construction, installation of Bioenergy facilities fed by sustainable sources of local raw material (such as organic waste) avoiding conflict of utilization of the resources, deforestation and land use. Development, construction, installation of anaerobic digestion of sewage sludge treatment facilities dedicated to biogas production used directly for the generation of electricity and/or heat or upgraded to bio-methane and equipped with a methane leakage monitoring measure.
	Development, construction, installation and maintenance of Energy Storage Facilities aiming at promoting the development of Renewable energies	Development, construction, installation and maintenance of Energy Storage Facilities (aiming at promoting the development of Renewable energies and/or replacing peak electricity produced by less environmentally friendly units).

Project Category	***Use of Proceeds***	***Definition/Eligibility criteria / Geospatial Eligibility criteria***
Sustainable mobility	Development, construction, installation and maintenance of electric rail transportation & vehicles for the movement of goods and people as well as related infrastructure projects	Electrified rail transport equipment and infrastructure for freight and/or passenger transport & acquisition of new electric rolling stock.
Green Buildings	Development of new buildings or acquisition of existing buildings Major renovation or Restructuring of existing buildings	The buildings receiving an Edge certification. Projects demonstrating at least 30% of energy consumption savings post refurbishment (for buildings and plants).
Pollution Prevention and Control	Projects of waste reduction, collection, recycling and sustainable treatment	Projects to increase non-hazardous waste collection and processing (removal, processing, recycling, composting), either through the construction of new waste management systems and facilities or through the expansion/improvement of existing ones, limited to sorting, recycling or recovery final purpose.
Sustainable water and wastewater management	Projects of water resources' protection and management	Projects dedicated to the protection of water resources, water stress mitigation, water drainage capacity, efficiency in water distribution including irrigation system to promote water saving and recovery. Projects dedicated to the construction or extension of centralized wastewater systems including collection (sewer network) and treatment.
Environmentally sustainable management of living natural resources and land use	Projects contributing to land use/soil protection, prevention of desertification and soil erosion	Projects dedicated to fight against desertification, restore degraded land and decontamination of grounds. Projects contributing to fight against deforestation and sustainable forestry development with label FSC and PEFC.
	Projects contributing to biodiversity conservation	Programs for the protection and restoration of ecosystems and priority species.
	Projects contributing to sustainable agriculture	Projects promoting sustainable agricultural practices such as organic agriculture. These projects follow the

Project Category	***Use of Proceeds***	***Definition/Eligibility criteria / Geospatial Eligibility criteria***
		climate-smart approach, with techniques that aim at reduction GHG emissions, and increase of resilience to climate change.
Climate Resilience: Land and Water related hazards	Projects dedicated to the minimization of drought risks & flood risks	Projects dedicated to strengthening resilience and adaptive capacity to drought risks, flood risks, climate-related hazards and natural disasters such as: • early warning systems for monitoring and forecasting water and climate related hazards; • construction, and maintenance of adaptation measures and or infrastructure (e.g incorporation of submergible transformers, switches, pumps).

Excluded activities
• Projects related to Acquisition, Development, Operation and maintenance of new or existing fossil fuel-based electricity generation capacity or heating systems (including, but not limited to, coal, oil or natural gas-powered assets).
• In the specific context of Sustainability mobility: Projects for infra- structure dedicated to the transport of fossil fuels or blended fossil fuels.
• In the specific context of Pollution Prevention and Control: Projects dedicated to Waste-to-Energy.
• Projects related to water desalination.
• Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals,
pesticides/herbicides, ozone depleting substances, PCB's, wildlife or products regulated under CITES.
• Production or trade in weapons and munitions.
• Production or trade in alcoholic beverages (excluding beer and wine).
• Production or trade in tobacco.
• Gambling, casinos and equivalent enterprises.
• Production or trade in unbonded asbestos fibbers.
• Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
• Production or activities involving harmful or exploitative forms of forced labour/harmful child labour.
• Production or trade in wood or other forestry products other than from sustainably managed forests.

7.3. ICMA Green Bond: Independent External Review Form

Sustainability-Linked Bonds
Independent External Review Form

The Guidelines for External Reviews recommend the public disclosure of external reviews either in summary format through a recommended template and/or in its entirety. This contributes to market transparency and clarifies issuers' alignment with the Principles.

Section 1. Basic Information

Issuer name:
Sustainability-Linked Bond ISIN:
Independent External Review provider's name for second party opinion pre-issuance (sections 2 & 3)**:**
Completion date of second party opinion pre-issuance:
Independent External Review provider's name for post-issuance verification (section 4)**:**
Completion date of post issuance verification:

At the launch of the bond, the structure is:

☐ a step-up structure

☐ a variable redemption structure

Section 2. Pre-Issuance Review

2-1 SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review:

☐ assessed all the following elements (complete review) ☐ only some of them (partial review):

☐ Selection of Key Performance Indicators (KPIs)

☐ Bond characteristics *(acknowledgment of)*

☐ Calibration of Sustainability Performance Targets (SPTs)

☐ Reporting

☐ Verification

☐ and confirmed their alignment with the SLBP.

2-2 ROLE(S) OF INDEPENDENT EXTERNAL REVIEW PROVIDER

☐ Second Party Opinion ☐ Certification

☐ Verification ☐ Scoring/Rating

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

2-3 EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Section 3. Detailed pre-issuance review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

3-1 SELECTION OF KEY PERFORMANCE INDICATORS (KPIS)

Overall comment on the section *(if applicable)*:

List of selected KPIs:

- ✓ **…**
- ✓ …

Definition, Scope, and parameters

☐ Clear definition of each selected KPIs ☐ Clear calculation methodology

☐ Other *(please specify)*:

Relevance, robustness, and reliability of the selected KPIs

☐ Credentials that the selected KPIs are relevant, core and material to the issuer's sustainability and business strategy.

☐ Evidence that the KPIs are externally verifiable

☐ Credentials that the KPIs are measurable or quantifiable on a consistent methodological basis

☐ Evidence that the KPIs can be benchmarked

☐ Other *(please specify):*

3-2 CALIBRATION OF SUSTAINABILITY PERFORMANCE TARGETS (SPTs)

Overall comment on the section *(if applicable)*:

Rationale and level of ambition

☐ Evidence that the SPTs represent a material

☐ Credentials on the relevance and reliability of improvement

☐ Evidence that SPTs are consistent with the issuer's sustainability and business strategy

selected benchmarks and baselines

☐ Credentials that the SPTs are determined on a predefined timeline

☐ Other *(please specify):*

Benchmarking approach

☐ Issuer own performance

☐ reference to the science

☐ Issuer's peers

☐ Other *(please specify)*:

Additional disclosure

☐ potential recalculations or adjustments description

☐ identification of key factors that may affect the achievement of the SPTs

☐ issuer's strategy to achieve description

☐ Other *(please specify)*:

3-3 BOND CHARACTERISTICS

Overall comment on the section *(if applicable)*:

Financial impact:

☐ variation of the coupon

☐ …

☐ Other *(please specify)*:

Structural characteristic:

☐ …

☐ …

☐ Other *(please specify)*:

3-4 REPORTING

Overall comment on the section *(if applicable)*:

Information reported:

☐ performance of the selected KPIs

☐ level of ambition of the SPTs

☐ verification assurance report

☐ Other *(please specify):*

Frequency:

- ☐ Annual
- ☐ Semi-annual
- ☐ Other *(please specify):*

Means of Disclosure

- ☐ Information published in financial report
- ☐ Information published in sustainability report
- ☐ Information published in ad hoc documents
- ☐ Other *(please specify):*
- ☐ Reporting reviewed *(if yes, please specify which parts of the reporting are subject to external review):*

Where appropriate, please specify name and date of publication in the "useful links" section.

Level of Assurance on Reporting

- ☐ limited assurance
- ☐ reasonable assurance
- ☐ Other *(please specify):*

USEFUL LINKS *(e.g. to review provider methodology or credentials, to issuer's documentation, etc.)*

Section 4. Post-issuance verification

Overall comment on the section *(if applicable)*:

Information reported:

- ☐ limited assurance
- ☐ reasonable assurance
- ☐ Other *(please specify):*

Frequency:

- ☐ Annual
- ☐ Semi-annual
- ☐ Other *(please specify):*

Material change:

- ☐ Perimeter
- ☐ KPI methodology
- ☐ SPTs calibration

8. Glossary

Bondholder. An investor in a bond.

Capital project. A long-term, capital-intensive investment project with a purpose to build upon, add to or improve a capital asset – for example, a property, building or other infrastructure.

Coupon rate. The interest rate offered on a Bond.

Credit rating agency. An entity that assesses the creditworthiness of the corporate issuer, in general, or the issued bond, in particular. Creditworthiness describes the ability of the issuer to redeem the bond.

Creditworthiness. The extent to which an entity is considered suitable to receive financial credit, often based on its reliability in paying money back in the past.

Commercial paper. A commonly used type of unsecured, short-term debt instrument issued by corporations, typically used for the financing of payroll, accounts payable and inventories, and for meeting other short-term liabilities.

Debt capital markets. Entities that facilitate the issuance of debt instruments and access to investors.

Debt listing requirements. The rules and procedures governing new applications and continuing obligations applicable to issuers of debt securities.

External reviewer. Independent organization commissioned to review the green credentials of the use of proceeds prior to a bond issue and after a bond is issued.

Fixed-income security. A financial instrument with remuneration to investors (holders of the security) in defined periods and with certain profitability conditions at the time of application.

Green bond. A type of fixed-income instrument that is specifically earmarked to finance or refinance green eligible activities that will have a positive environmental impact.

Green default. A situation whereby a bond is paid in full but the issuer breaks the agreed green clauses or mandated green outcomes.

Green economy. Economic activities and infrastructure that enable a robust, efficient, competitive, lower-carbon, resilient and sustainable economy and society.

Green project. Project with positive environmental attributes. Such a project is considered suitable for the issuance of a green bond (new or existing).

Greenwashing. Misinformation or exaggerated reporting of sustainable targets disseminated by an organization so as to present an environmentally responsible public image.

Index provider. Market indices classify and define a market or a portion of a market. Those indices are used to benchmark that market or share of the market. An index provider maintains such an index.

Issuer. An institution that has a potential project with sustainability/social/environmental/climate benefits which opts to raise capital for that project by issuing a Green Bond, conducting the expected processes for using such a financial instrument. Typically, major issuers in the international market are private companies, supranational institutions and multilateral development banks. Government agencies, including   corporates and financial institutions (public and private), might also raise capital via the issuance of a Green Bond.

Investor. Any person or other entity that commits capital in a transaction with the expectation of receiving financial returns as a reward for their investment. Investors rely on different financial instruments to earn a rate of return and accomplish financial objectives. The characteristics of Green Bonds are especially attractive to investors with long-term profit goals and who are focused on environmental, social and governance aspects as part of their investment selection criteria.

KPI-linked bonds. Bonds issued with a structural component (e.g. a coupon) that varies depending on whether a defined environmental, social and/or governance key performance indicator/objective is achieved. Also known as sustainability-linked bonds or SDG-linked bonds.

Legal advisor. An issuer may require the assistance of a law firm to assess the legal aspects of the issuance of the fixed-income security, assist in the preparation of drafts of the writ and other legal documents, as well as perform legal due diligence where the contracts and other obligations undertaken by the company and are of interest to prospective investors will be checked.

Issuer. A publicly mandated entity that has its own territory, operating at a subnational scale (usually within a province or state). On this territory, the local community gives it a mandate to render public good. From that mandate, specific powers and functions are derived. To justify its powers and fulfil its functions, the issuer must follow specific rules and processes. In an intergovernmental system, these powers and functions, rules and processes become related to other public entities of the same or different public sphere. In Mongolia, there are metropolitan, district and local   corporates; there may be related corporate entities that deliver specific services.

Nationally determined contribution. National climate plans highlighting climate actions, including climate-related targets, policies and measures that governments aim to implement in response to climate change and as a contribution to global climate action.

Paris Agreement. A legally binding international treaty on climate change adopted by 196 parties on 12 December 2015 and entering into force on 4 November 2016.

Pension funds. Funds from which pensions are paid, accumulated from contributions from employers, employees, or both.

Principal. The amount of money the issuer of a bond is borrowing and will repay to a bondholder in full upon the bond’s maturity.

Private placement. The sale of stock shares or bonds to preselected investors and institutions rather than on the open market.

Prospectus. A formal document that is required by and filed with the debt capital markets regulator

Public offering. The sale of equity shares or other financial instruments such as bonds to the public in order to raise capital.

Ratings agency. Agency that provides credit ratings, research, tools and analysis that contribute to transparency and integration of financial markets. A ratings agency provides an independent assessment on the credit quality of the issuer. In addition to the traditional function of assigning credit ratings, rating agencies have also started to structure environmental assessment processes related to project selection criteria and/or projects funded by Green Bonds, in order to assign a specific rating on the Green Bond characteristics and not on the issuer’s credit profile.

Securitized bond. Bond where coupon and interest payments come from a collection of other underlying assets.

Sustainable bond. a collective term for one or all of typical use of proceeds financial instruments that are labelled “green”, “environmental”, “social” or “sustainability” in terms of market accepted practices for these labels.

Sustainable development. The integration of social, economic and environmental factors into planning, implementation and decision-making so as to ensure that development serves present and future generations.

Sustainability. A dynamic process that guarantees the persistence of natural and human systems in an equitable manner.

Sustainability bond. Fixed-income instrument whose proceeds will be exclusively applied to finance or refinance a combination of both green and social projects.

Tenor. The length of time remaining before a financial contract expires; used interchangeably with “maturity”.

Underwriter. A financial institution that takes the lead and is responsible for the underwriting and distribution of the entire bond issue.

Use of proceeds instrument. A financial instrument in which the capital raised is earmarked for specific projects that have green, social or sustainability attributes.

Vanilla bond. A bond without any unusual features. It is one of the simplest forms of bond with a fixed coupon and a defined maturity and is usually issued and redeemed at face value. It is also known as a straight bond or a bullet bond.

Yield. In this context, an effective financial return or interest paid to buyers of government bonds with reference to its current price.