MONGOLIAN BANKERS ASSOCIATION

MONGOLIAN SUSTAINABLE FINANCE PRINCIPLE GUIDELINES

ULAANBAATAR

2014

Introduction

As Banks, we have the opportunity to play a major role in Mongolian green economic development. Accordingly we hereby unite to support the development and implementation of a set of principles which commit Mongolian banks to integrate environmental and social considerations into business decisions and banking practices.

Whilst economic growth creates new opportunities, we must also find solutions to a range of challenges including air and water pollution, climate change, water and natural resource scarcity, environmental degradation, growing population density and poverty. During this period of rapid economic development in Mongolia, it is critical that we align the rapid economic growth with environmental protection, preservation of our unique nomadic culture, our way of life, history and values, and orchestrate it in harmony with sustainable livelihoods and education, health and the lifestyle of Mongolians.

We are fully confident that our joint efforts in pursuit of solutions to the challenges identified and our solidarity towards a healthy, safe, and green working and living environment will be supported by decisions that will, through our products and services, operations, partners and clients, lead to economic development which is not only profitable, but also takes into consideration the environment and society in Mongolia. We aspire to be a sector that contributes to economic stability, job creation and to become a reference point for sustainable finance. We are confident that these efforts could lead to increased access to international markets as well as sources of international finance.

We recognise that a bank's business activities involving a client with poor environmental and social performance may potentially expose a bank to risk, whether legal, credit or reputational risk. Furthermore, a bank's business operations, if not managed properly, can have potentially negative impacts on the environment and surrounding communities. Therefore within the banking sector, addressing environmental and social issues potentially associated with a bank's business activities and business operations are considered integral to the proper management of transaction, client, portfolio and reputational risks. Banks also can take a leadership role in supporting sustainability, green development and financial inclusion via the products and services we provide to our customers.

As we apply the Mongolian Sustainable Finance Principles in our own operations, in the development of our products and services, and the way we work with our clients, we seek to create a level playing field, which forms the basis for sustainable finance in Mongolia. We will ***protect*** the natural environment, people and communities, and cultural heritage. We will ***promote*** green economic growth, financial inclusion, ethical finance and corporate governance, and transparency and accountability. We will ***practice*** all of these principles and report on a regular basis on our progress.

THE MONGOLIAN SUSTAINABLE FINANCE PRINCIPLES

The Principles have been developed to help Mongolian banks address sustainability issues and play a leading role in shaping the Mongolian economic development agenda. The approach is one of sustainable finance that seeks to avoid, minimise, or mitigate negative environmental and social impacts and contributes to the diversification of the Mongolian economy by encouraging the financing of projects, goods and services that are consistent with the country's green economy growth and development objectives.

Principle 1 | Protect the natural environment
We will manage the use of soil, water, air, biodiversity and natural resources to minimise negative impacts, and encourage the preservation and sustainable use of finite resources which are constrained or threatened.

Principle 2 | Protect people and communities
We will respect and uphold human rights and labour standards; and protect the health and safety of people and local communities.

Principle 3 | Protect cultural heritage
We will protect and preserve unique aspects of Mongolian culture such as our traditions and language, as well as our cultural, historical, archaeological, and paleontological heritage.

Principle 4 | Promote "green economy" growth

We will promote projects and other activities that contribute to a greener, cleaner economy in Mongolia.

Principle 5 | Promote financial inclusion
We will promote a more inclusive financial system in Mongolia by increasing access to financial products and services, providing financial education, and ensuring consumers are better protected.

Principle 6 | Promote ethical finance and corporate governance

We will not finance certain "excluded" activities, we will not tolerate unethical or criminal behaviour, and we will encourage and support improved practices relating to ethics and corporate governance.

Principle 7 | Promote transparency and accountability
We will promote transparency and accountability and report on our progress against our sustainable finance commitments.

Principle 8 | Practice what we preach
We will apply the same considerations to our own Business Operations that we are asking of our clients and will, as a sector, lead by driving positive environmental, social and economic development in Mongolia.

ABOUT THE PRINCIPLES GUIDANCE

The supporting guidance contained in this document is intended to help banks in setting up policies, processes, and decision-making around what we have determined to be the critical issues for sustainable finance in Mongolia. In addition to adherence to Mongolian laws, we also reference relevant international standards and publicly available industry good practice examples (in order of relevance) to help us achieve consistency with international market expectations. Over time we will develop our own Mongolian-specific examples to add to this guidance. We recognise that sustainable finance is about cooperation, collaboration and sharing best practice, and thus our reporting and learning will be open and transparent.

Each bank will apply this guidance differently and customise their approach according to their respective activities, operations, clients, products, and services. This guidance is intended to help catalyse ideas and provide context, inspiration and examples for each of the banks to practice the Mongolian Sustainable Finance Principles in their day-to-day work. We expect that this guidance will help determine respective policies; processes, tools and systems; internal roles and responsibilities; training; product and service development; and reporting.

Glossary

The table below contains a selection of terms and abbreviations used that may be new or unfamiliar for readers of this Guidance Note. It provides our own definitions created from public information and further clarification of what was intended in designing and implementing the Mongolian Sustainable Finance Principles.

Term / Abbreviation	Definition
Business Activities	The provision of financial products and services to clients including, but not limited to: corporate finance, investment banking (corporate advisory, structured lending and capital, trading), equity investments, project finance, project finance advisory, structured commodity finance, small and medium business lending, retail banking, trade and leasing, and other forms of direct lending.
Business Operations	The undertakings of employees and the physical human capital, assets and infrastructure (e.g. offices, branches, equipment) that a Bank engages in the course of facilitating its Business Activities. This would also include suppliers, contractors and third party providers engaged by a Bank in the course of facilitating its Business Operations and Business Activities.
Cultural Heritage	Cultural heritage is the legacy of physical artefacts and intangible attributes of a group or society that are inherited from past generations, maintained in the present and bestowed for the benefit of future generations.
Environmental and Social Footprint	The total effect or impact that a Bank's Business Operations have on the environment and society in which it operates (e.g. the amount of natural resources used, the amount of waste produced, or the effects on local/host communities or the Bank's human capital).
Environmental and Social Impacts	Any change, potential or actual, to (a) the physical, natural, or cultural environment, and (b) impacts on surrounding community and workers, resulting from a business or business activity to be financed. E&S impacts may be temporary or permanent, involving reversible or irreversible changes on the environment or society. Environmental risks can include changes to the atmosphere, water and land due to human activities (e.g. greenhouse gases, pollution, changes to habitats, etc.). Social risks can include impacts to a client's workforce as well as the surrounding community (e.g. occupational health and safety, human rights and labour standards, land disputes or resettlement, corruption, etc.).
Environmental and Social Opportunities	New business opportunities arising from meeting E&S challenges such as development of clean or renewable technology, job creation and community development. Taking account of E&S issues in making a business decision could also lead to potential benefits to the client or the Bank providing financial services to the client.
Environmental and Social risks	The potential E&S issues associated with a client or engagement that may imply exposure to risk and accordingly may need to be taken into account when making business and risk management decisions.
Equator Principles	The Equator Principles are a voluntary set of standards for identifying, assessing and managing environmental and social risk in project financing.

Ethical Finance	A philosophy or approach to strategically allocating and investing capital which considers a combination of financial, ethical, social, environmental and sustainability considerations.
Financial Inclusion	Financial inclusion is defined as the ability of an individual, household, or group to access appropriate financial services or products. Without this ability people are often referred to as financially excluded.
Green Economy	A Green economy improves human well-being, ensures social equity, low carbon, resource efficient and socially inclusive society, while significantly reducing environmental risks and ecological scarcities. (UNEP definition)
Green Growth	Growth that is environmentally sustainable: Growth that is *efficient* in its use of natural resources, *clean* in that it minimizes pollution and environmental impacts, and *resilient* in that it accounts for natural hazards and the role of environmental management and natural capital in preventing physical disasters. (World Bank definition)
Human Rights	Human rights are rights inherent to all human beings, whatever our nationality, place of residence, sex, national or ethnic origin, colour, religion, language, or any other status. These rights include but are not limited to freedom to speak, associate and work, equality, and justice.
IFC	International Finance Corporation

Principle 1	**Protect the natural environment**
We will manage the use of soil, water, air, biodiversity and natural resources to minimise negative impacts, and encourage the preservation and sustainable use of finite resources which are constrained or threatened.	
What does this Principle mean?	A Bank should consider whether there are potential negative impacts to the environment (including soil, water, air biodiversity and natural resources) as a result of its Business Activities. In applying this principle, a Bank should systematically identify, assess and manage environmental risks and potential impacts associated with its client and transactions and determine whether relevant environmental standards have been adequately applied. The extent of a Bank's exposure to environmental risks depends on a number of factors including the nature of the relationship with the client, type and tenure of the services provided as well as the sector of the business in question and the client's ability to manage identified environmental risks. Where possible, a Bank will actively support those Business Activities that encourage and support the avoidance, minimisation and mitigation of negative environmental impacts, and application of environmental standards consistent with Mongolian national laws and international conventions/agreements to which Mongolia is a party. A Bank will seek to encourage and promote the conservation and preservation of finite environmental resources and overall ecosystem health to its clients and transaction it finances.

Principle 1	Protect the natural environment
Relevant International Standards	• IFC Performance Standards 1 (Assessment of Environmental and Social Risks and Impacts), 3 (Resource Efficiency and Pollution Prevention), and 6 (Biodiversity Conservation and Sustainable Management of Living Resources) (Link) • IFC Environmental, Health and Safety Guidelines (Sector-specific) (Link) • Equator Principles (Link) • EBRD Performance Requirements (Link) • ISO 14001 – Environmental Management (provides practical tools for companies and organisations looking to identify and control their environmental impact and improve their environmental performance.) (Link)
Implementation of Principle 1	In implementing this Principle, a Bank will incorporate into its decision-making processes an approach that systematically identifies, assesses and manages environmental risks and potential impacts associated with its clients and transactions and determine whether relevant environmental standards have been adequately applied. Where avoidance of environmental impacts is not possible, a Bank should agree with its clients a plan to minimise and/or offset identified impacts and work toward improved environmental performance with tangible goals within agreed timeframes. As part of its sustainable finance policy and procedures, a Bank should develop and implement a policy framework that adequately addresses considerations relating to environmental risk issues and/or negative impacts on the environment potentially associated with its transactions and clients. Third-party suppliers may be a part of the considerations, depending on the sector, proximity and/or relationship to the client's operations, and/or potential for E&S risks. Such considerations could include but are not limited to: - A client's commitment and capacity to manage environmental risks and impacts (e.g. systemised approach to identifying and managing environmental impacts, resource efficiency, initiatives to conserve or rehabilitate natural resources, etc.). - Type and size of operations and if they are operating in an environmentally sensitive sector. - Location of the activities (if they operating in or near protected areas or areas of high environmental value). - What natural resources are being used/extracted and how (methods) whether resources are limited or constrained, consider whether potential for new legislation/regulation may present additional risks or consequences.

Principle 1	Protect the natural environment
Good Practice References	• Standard Chartered have position statements outlining their approach in 20 sensitive business sectors (e.g. Agribusiness, Fisheries, Palm Oil, Biofuels etc.) (Link) • ANZ have a number of sustainability policies around protecting the environment including Forestry and Water (Link) • Biodiversity for Banks Programme (Link) is an online set or resources and reference materials designed specifically to help Banks integrate Biodiversity issues into their Business Operations. • The Natural Capital Declaration (Link) is a global commitment for financial institutions to integrate natural capital criteria into financial products and services. • The Economics of Ecosystems and Biodiversity (TEEB) is a global initiative focused on quantifying the economic benefits of biodiversity. • World Bank Water Partnership Programme (Link) demonstrates the benefits of good water management in the projects that it finances.

Demonstrating Progress	In order to demonstrate progress in implementing this principle, a Bank should:
	• Develop and implement a sustainable finance policy and procedures which provide an overall approach to avoiding, minimising or mitigating damage to the environment that includes:
	  ◦ Clear support for and adherence to relevant national and international standards and laws;
	  ◦ Environmental considerations and criteria in due diligence and business decision-making processes for potential clients and transactions;
	  ◦ Dedicated resources and training for relevant Bank staff to create awareness about the potential impacts to the environment and natural resources associated with clients' activities as well as the potential risk to the bank arising from identified potential impacts.
	• Provide tools and practical resources to help Bank staff assess and evaluate the level of environmental risks involved with potential client and/or transaction investments.

Principle 2	Protect people and communities
We will respect and uphold human rights and labour standards; and protect the health and safety of people and local communities.	
What does this Principle mean?	A Bank shall consider whether the human rights, health and safety of people and communities associated with its transactions and clients may be negatively impacted and whether appropriate social standards have been adequately applied. Where possible, a Bank will actively support those Business Activities that encourage and support respect for human rights and human health and safety, and application of labour standards consistent with Mongolian national laws and international conventions/agreements to which Mongolia is a party.
Relevant International Standards	**Relevant Standards** • IFC Performance Standard 2 (Labour and Working Conditions), 4 (Community Health, Safety and Security), 5 (Land Acquisition and Involuntary Settlement), and 7 (Indigenous Peoples) (Link) • IFC Environmental, Health, and Safety Guidelines include useful sector specific information relating to Human Rights and Labour standards (Link) • OHSAS 18001 (International standards for occupational health and safety systems) (Link) **International Declarations** • Universal Declaration of Human Rights (UNDHR) (Link) • United Nations: Guiding Principles for the Implementation of the United Nations "Protect, Respect and Remedy" Human Rights Framework (Link) • The International Labour Organisation (ILO) Declaration on Fundamental Principles and Rights at Work (Link) • The Voluntary Principles on Security and Human Rights (VPSHR) (Link)
Implementation of Principle 2	As part of its sustainable finance policy and procedures, a Bank should develop and implement a policy framework and procedures that adequately address social considerations relating to human rights, health and safety and labour standards issues and/or impacts potentially associated with its transactions and clients, including third party suppliers where appropriate. Such considerations include but are not limited to: • Violation of basic human rights, such as the right to life, liberty and personal security, as set out in the Universal Declaration of Human Rights; • Discrimination based on national origin, race, colour, gender, developmental disability, social origin, social and marital status, pregnancy, family responsibility, income and wealth, religion, personal conviction, and other factors that do not influence one's ability to work; • Forced or bonded labour; • Child labour (enforcing the minimum working age), proper work restrictions (work that jeopardises the health, safety or morals of children, exploit children's labour, unfair compensation, identify theft of children); • Employment contracts that are not compliant with relevant labour laws; • Lack of freedom of association and the right to collective bargaining;

Principle 2	Protect people and communities
	• Lack of grievance processes in place and/or a complaints mechanism to protect labour rights; • Minimum wage, social security and medical insurances are not paid in accordance with applicable labour laws; • Failure to provide safe and healthy working conditions, free from physical, emotional and sexual harassment; • Violations of community rights (e.g. forced resettlement or economic displacement, or dangerous / harmful impacts on community health and safety).
Good Practice References	• Rabobank's Human Rights Policy is a useful example of a financial institution's approach to Human Rights. (Link) • EBRD Performance Requirements 2 (Labour and Working Conditions), 4 (Community Health, Safety and Security). (Link) • IFC: Measure & Improve Your Labour Standards Performance: Performance Standard 2 Handbook for Labour and Working Conditions provides practical information on labour standards. (Link) • UNEP-FI has developed a Human Rights Toolkit to support Financial Institutions in implementing Human Rights into their business. (Link) • The Thun Group of Banks: UN Guiding Principles on Business and Human Rights have produced a discussion Paper for Banks on the Implications of Principles 16–21. (Link) • IFC: Guide to Human Rights Impact Assessment and Management provides guidance for financial institutions on conducting assessments. (Link) • IFC: Developing a Transparent System for Local Contracting. (Link) • World Bank Group: A Roadmap for Integrating Human Rights into the World Bank Group offers insights into the success and challenges associated with implementing Human Rights into Financial Institutions. (Link)

Demonstrating Progress	In order to demonstrate progress in implementing this principle, a Bank should:
	• Develop and implement a sustainable finance policy and procedures which address human rights and labour standards and provides an overall approach to protecting people and community that includes:
	  • Clear support for and adherence to relevant national and international laws and standards;
	  • Human rights, health and safety, and labour standards considerations and criteria in due diligence and business decision-making procedures;
	  • Dedicated resources and training to create awareness about human rights, health and safety, and labour issues for relevant Bank staff.

Principle 2	Protect people and communities
	• Provide tools and practical resources to help Bank staff assess and evaluate the level of social risk involved with potential clients and transactions.

Principle 3	Protect cultural heritage
We will protect and preserve unique aspects of Mongolian culture such as our traditions and language, as well as our cultural, historical, archaeological, and paleontological heritage.	
What does this Principle mean?	A Bank shall consider whether cultural heritage (including tangible and intangible cultural heritage as defined by the Law for Protection of Cultural Heritage of Mongolia[1]) may be negatively impacted by its clients' activities and/or a transaction or project and whether appropriate standards have been adequately applied. Banks will not only seek to avoid damage to cultural heritage but will also actively seek to protect and preserve unique Mongolian cultural heritage, given its irreplaceable nature if damaged or lost as well as the identity and value it provides to society. Where possible, Banks will, accordingly, support any activities involving maintenance and protection of historical and cultural heritage. For the purposes of this initiative, cultural heritage shall be classified and regulated according to the "Law for Protection of Cultural Heritage of Mongolia" which defines cultural heritage as follows: 1. **Tangible cultural heritage** – archaeological and paleontological findings, buildings, artefacts, artworks and installations that are significant historically, culturally, and religiously (e.g. deer stone, rock art, burial mounds, ancient graves, ancient city remains, historical buildings and monuments, and gemstones, and cultural, natural properties inscribed on the UNESCO's World Heritage List, etc.). 2. **Intangible cultural heritage** – intellectual cultural heritage that is an expression of national creativity, knowledge, experience, and artistry, transmitted from generation to generation, and identified as having historic, ethnologic, ritualistic, architectural, technical, institutional, artistic, and scientific values (e.g. native language, script, folklore, folk long and short songs, throat singing, folk dance, contortion, customs, holiday rituals, traditional ways of living, etc.). Mongolian Banks should consider financing activities aimed at protecting and preserving cultural heritage, and in doing so, potentially create the following benefits: • The development of heritage tourism / new economic opportunities • New areas of employment • Increased property value at heritage sites
Relevant International Standards	• IFC Performance Standard 8 (Cultural Heritage) / Performance Standard 7 (Indigenous Peoples). (Link) • UN Educational, Scientific and Cultural Organisation (UNESCO) World Heritage List. (Link) • Convention Concerning the Protection of the World Cultural and Natural Heritage. (Link)

[1] http://www.legalinfo.mn/law/details/455

Principle 3	Protect cultural heritage
Implementation of Principle 3	As part of its sustainable finance policy and procedures, a Bank should develop and implement a policy framework and procedures that adequately address cultural heritage considerations and/or impacts to cultural heritage potentially arising from a client's activities or a transaction/project, including third party suppliers where appropriate. Such considerations could include but are not limited to: - Identification and assessment of any cultural heritage associated with clients and transactions to quantify and measure value (including the potential for discovering cultural heritage after operations begin); - The level of assessment and public consultation that has been undertaken by clients or projects involving cultural heritage; - Ensuring that there is no material destruction or damage to tangible or intangible cultural heritage associated with particular projects or client Business Activities; - Identification of any risk of destruction or damage to current or proposed World Heritage sites or other nationally protected areas; - Violations of the Law for the Protection of Cultural Heritage of Mongolia or other applicable laws; - Community access to cultural heritage that is protected and associated with particular clients or transactions.
Good Practice References	• HSBC's World Heritage Site Policy (Link) • EBRD Performance Standard 8 (Cultural Heritage), 7 (Indigenous Peoples) (Link) • IFC: Strategic Community Investment: A Good Practice Handbook for Companies Doing Business in Emerging Markets (Link) • IFC: Investing in People: Sustaining Communities Through Improved Business Practice (Link) • WRI: Breaking Ground: Engaging Communities in Extractive and Infrastructure Projects (Link) • UN Declaration on the Rights of Indigenous People (Link)

Demonstrating Progress	In order to demonstrate progress in implementing this principle, a Bank should:
	• Develop and implement a sustainable finance policy and procedures which address cultural heritage including:
	  • Clear support for and adherence to relevant national and international laws and standards aimed at preserving and protecting cultural heritage;
	  • Cultural heritage considerations and criteria in due diligence and business decision-making procedures (including guidance for community consultation requirements);
	  • Dedicated resources and training to create awareness about cultural heritage issues for relevant Bank staff.
	• Provide tools and practical resources to help Bank staff assess and evaluate the level of cultural heritage risk involved with potential clients and/or transactions as well as identify potential risk management solutions.

Principle 4	Promote "green economy" growth
We will promote projects and other activities that contribute to a greener, cleaner economy in Mongolia.	
What does this Principle mean?	UNEP defines a Green Economy as one that improves human well-being, ensures social equity, low carbon, resource efficient and socially inclusive society, while significantly reducing environmental risks and ecological scarcities. The World Bank defines Green Growth as growth that is environmentally sustainable: Growth that is *efficient* in its use of natural resources, *clean* in that it minimizes pollution and environmental impacts, and *resilient* in that it accounts for natural hazards and the role of environmental management and natural capital in preventing physical disasters. Mongolian banks have a role to play in facilitating and financing projects involving renewable or clean energy, resource efficiency, clean production, reduced emissions, improved waste management, and other activities that contribute to green economic growth and development. This will in turn create employment opportunities as well as improve human health and well-being in Mongolia. A Bank will seek consistency with the strategy of the Ministry of Environment and Green Development and the Central Bank of Mongolia for encouraging green economy growth. A Bank shall consider in its Business Activities whether a client's activities rely on constrained or limited resources and/or the client's operations could be improved with the benefit of cleaner, more efficient, or greener methods or technology.
Relevant International Standards	• ISO 50001 2011 is a commercially available institutional energy management system. (Link) • ISO 21929-1 2011 is core set of indicators to take into account in the use and development of sustainability indicators for assessing the sustainability performance of new or existing buildings, related to their design, construction, operation, maintenance, refurbishment and end of life. (Link) • The Greenhouse Gas Protocol Initiative has information on standards and tools for clients to manage their institutional GHG footprint. (Link) • USGBC LEED-Existing Building is an international green building certification program, providing a framework of actionable measures for building design, construction, operations and maintenance. (Link) • EPA Energy Star provides international benchmarks on energy efficient electronic equipment, energy efficient products and energy strategies for buildings. (Link) • The International Institute for Sustainable Development recently published a report outlining the role of private sector voluntary sustainability standards for a green economy focused agriculture commodities. (Link)
Implementation of Principle 4	A Bank should develop and implement a business strategy that adequately addresses green economy considerations relating to the provision of products and services that can help clients improve, including third party suppliers or supply/value chain issues where appropriate. Such considerations could include but are not limited to: • New technologies and equipment that are energy, water or other resource efficient (including maximising the use of raw materials, improving utilisation of natural resources); • Reduction of carbon dioxide, dust or other airborne pollutants; • Application of efficient, reduced waste, clean production and service methods;

Principle 4	Promote "green economy" growth
	• Eco-friendly inputs and raw materials; • Utilisation of renewable energy (e.g. solar, wind, hydropower, geothermal, etc.); • Technologies and methods that improve the working environment and health and safety conditions. In developing its approach a Bank should consider its core business and existing mix of products and services, as well as new market opportunities to develop appropriate "green" products or services. In addition, specific measures should be taken to educate and support clients to understand the business benefits of "greener" operations. Examples of how a Bank could implement "green" products and services are provided below: • Personal banking – Green credit/debit cards; green savings accounts; green credit schemes; green mortgages; • SME and Corporate Banking – Assigning dedicated amounts of investment capital for green/socially responsible lending; green leasing for corporate real estate, provide consulting services on environmental best practices; • Project finance – Preferentially financing projects that aim to have a positive environmental impact and demonstrate strong capabilities in environmental management; support and develop new finance opportunities for new projects that use advanced and renewable technologies; • Investment Banking – Investment portfolios focused on environmentally and socially responsible clients and projects; reward and financing schemes for the reduction of GHGs or pollutants; issue green bonds.
Good Practice References	• XacBank have a range of Eco Personal Banking services including: Mortgage Loans for GHG Emission Reduction, SME business loans for reducing GHG emissions by 20%, and eco-loans for purchasing clean gas stove cookers. (Link) • Standard Bank has a range of environmental products and services around climate finance. (Link) • Triodos Bank, based in the Netherlands operates its entirely around sustainable finance and has a wide range of products and services. (Link) • NEFCO is an international financial institution. NEFCO finances investments and projects primarily in Russia, Ukraine, Estonia, Latvia, Lithuania, Moldova and Belarus as well as climate projects across the world. (Link) • Barclays Renewable Energy Team: A dedicated Renewable Energy Team offering expertise and support tailored to the industry. It focuses on finance for farmers and landowners developing renewable energy projects including wind, hydro, solar and anaerobic digestion. (Link) • RBS Energy Efficiency Loan Fund for small and medium-sized enterprises (SMEs): A fund accompanies by an energy audit programme to assist SMEs looking for ways to make their business greener. The loan is to cover upfront costs of energy saving measures, such as insulation, lighting and new greener boilers. (Link) • Carbon Disclosure Project (CDP): system for measuring, reporting and disseminating information about institutional impacts, and global resource for policy relevant environmental information. (Link)

Principle 4	Promote "green economy" growth

Demonstrating Progress	In order to demonstrate progress in implementing this principle, a Bank should:
	• Develop and implement a business strategy for addressing green economy considerations that includes:
	  • Definitions of green products and services appropriate for the Bank's core business and growth objectives which outline:
	    • Any discounts, premiums and other incentives appropriate for each product and service and the benefits to customers;
	    • Adherence to any regulations, discounts, and green incentives advocated by the Bank of Mongolia;
	    • Links to specific programmes around strategic growth areas identified by the Mongolian banking sector, the Bank of Mongolia, or the Ministry of Environment and Green Development.
	  • Specific considerations and criteria in due diligence and business decision-making procedures to ensure finance is allocated to qualifying clients and projects;
	  • Dedicated resources and training to create awareness about green products and services for relevant Bank staff.
	• Provide tools and practical resources to help Bank staff develop and promote products and services and implement a green economy strategy.

Principle 5	Promote financial inclusion
We will promote a more inclusive financial system in Mongolia by increasing access to financial products and services, providing financial education, and ensuring consumers are better protected.	
What does this Principle mean?	Certain parts of Mongolian society have poor access to financial services due to barriers (e.g. irregular income, lack of employment, financial literacy, lack of physical access to banks, high cost of services, inappropriate products, regulatory barriers, lack of trust in financial institutions, etc.). A Bank shall consider whether its financial products and services are accessible to and affordable for disadvantaged or underserved groups and whether sufficient consumer education and protection measures have been put in place. Where gaps are identified, a Bank shall actively seek to improve its offerings and outreach while providing a wider range of educational tools and resources to increase the financial literacy of its customers and society.
Relevant International Standards	• Global Partnership for Financial Inclusion developed the G20 Financial Inclusion Indicators (Link) • The Alliance for Financial Inclusion is a global network of financial policymakers from developing and emerging countries working together to increase access to appropriate financial services for the poor. (Link) • The Maya Declaration is the first global and measurable set of commitments for financial inclusion to the currently unbanked in developing and emerging countries. (Link)
Implementation of Principle 5	As part of its sustainable finance policy and procedures, a Bank should develop and implement a financial inclusion strategy that focuses on reaching new segments of the market and innovating and diversifying the types of products and services it offers, as well as provides and encourages better education around financial literacy, and establishes measures to ensure the protection of vulnerable groups (e.g. avoiding predatory lending, ensuring consumers make use of appropriate products and services). When developing a financial inclusion strategy, a Bank should consider: • Current barriers to financially excluded groups accessing financial services in Mongolia (e.g. financial literacy, branch location, minimum requirements for account opening etc.). • Given the Bank's core business strategy, what types of products and services could be offered to ensure that these populations have access to "fit for purpose" banking services. A Bank shall: - Identify potential barriers to financial inclusion and develop appropriate products and services for particular target markets and the Bank's business model; - Provide specific development and growth support to SMEs, other minority or excluded groups; - Improve financial literacy and institutional practices by developing mechanisms and educational resources for consumers; - Improve access to bank facilities and services (e.g. flexible banking operation hours, disabled-access services, online/virtual services etc.) and where appropriate use new technology (e.g. mobile banking etc.).

Principle 5	Promote financial inclusion
Good Practice References	• "Mobile Banking – A case study of Mobile Banking success in Kenya" by the World Bank. (Link) • YES Bank in India has a dedicated team for Micro, Small and Medium Banking services. They also have personal services for specific groups (e.g. women). (Link) • IFC recently released "Stories of Impact: Financial Inclusion" that showcases a number of good practice examples across Asia and emerging markets. (Link) • World Bank Good Practices for Financial Consumer Protection provides a good overview for establishing good consumer protection mechanisms. (Link) • CGAP, the Microfinance Gateway: global source for policy and practical information, including case studies and research on microfinance. (Link) • Global Partnership for Financial Inclusion: for standards, information and resources. See Principles for Innovative Financial Inclusion, and tool kit for Promoting Women's Financial Inclusion. GPFI is the platform of G20 countries on financial inclusion and the implementing mechanism for the Financial Action Plan. (Link) • Small and Medium Enterprises in MENA: Leveraging Growth Finance for Sustainable Development. Khalid Al- Yahya and Jennifer Airey – analysis of needs for sustainable sector growth. Available at Heart and Mind Strategies research consultancy. (Link)

Demonstrating Progress	In order to demonstrate progress in implementing this principle, a Bank should seek to:
	• Develop and implement a business strategy that addresses financial inclusion and is aimed at increasing access to products and services, improving financial literacy and ensuring consumers are appropriately protected. This would include:
	  • Definitions on how financial inclusion fits in with the overall goals and Business Operations of the Bank that outlines:
	    • Disadvantaged or underserved markets the Bank wants to target, along with the products and services it wishes to provide;
	    • Any discounts, premiums and other incentives appropriate for each products and service and the benefits to consumers;
	    • Measures to ensure the protection of the target consumers;
	    • Initiatives and criteria to increase financial literacy.
	  • Any specific considerations and criteria in due diligence and business decision-making procedures to ensure finance is allocated to qualifying clients and transactions;
	  • Invest in resources and staff training to create awareness about financial inclusion strategies, products and services, financial literacy and protection measures.
	• Provide tools and practical resources to help Bank staff promote financial inclusion products and services and implement the financial inclusion strategy.

Principle 6	Promote ethical finance and corporate governance
We will not finance certain "excluded" activities, we will not tolerate unethical or criminal behaviour, and we will encourage and support improved practices relating to ethics and corporate governance.	
What does this Principle mean?	A Bank will not finance activities included in our agreed "Exclusion List" (see Appendix 1) and for certain activities involving sensitive or higher risk issues, a Bank shall undertake additional environmental and social due diligence. A Bank should demonstrate a zero-tolerance policy on corrupt or criminal behaviour and ensure that sufficient risk frameworks and systems are in place to eliminate money laundering and corrupt business practices by their clients. A Bank should promote improved ethical practices and enhanced corporate governance mechanisms with their clients where possible. A Bank will seek to finance clients that demonstrate a strong commitment, capacity and track record relating to ethics and corporate governance (evidence could include company policy, code of ethics, grievance mechanisms, and encouraging fair competition (see Mongolian law of Competition[2])). A Bank shall not knowingly finance any client activities that are linked to or involved in criminal cases related to corruption and unfair competition as prescribed by Mongolian law of "Money laundering and financing of terrorism"[3], other associated laws, and the Mongolian Bank's related regulations.
Relevant International Standards	• The Financial Action Task Force (Link) set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. • UK Bribery and Corruption Act 2010 is currently considered to be one of the leading bribery and corruption policies in the world. (Link) • International Committee of the Red Cross: Weapons and international humanitarian law. A resource detailing weapons banned under international law, including cluster munitions, anti-personnel land mines and chemical and biological weapons. (Link) • CITES (the Convention on International Trade in Endangered Species of Wild Fauna and Flora). A multilateral treaty governing the international trade in specimens of wild animals and plants. (Link) • The Wolfsberg Principles (Know Your Customer, Anti-Money Laundering and Counter Terrorist Financing Policies). (Link) • Transparency International – provides international best practice on issues surrounding corruption. (Link) • Rotterdam Convention (Link) and Stockholm Convention (Link) listing internationally banned chemicals.
Implementation of Principle 6	As part of its sustainable finance policy and procedures, a Bank should develop and implement a policy framework and procedures which address the need to screen its potential clients and transactions for prohibited, criminal, excluded or significantly controversial activities, and ensure compliance with national laws (see Appendix 1).

[2] http://www.legalinfo.mn/law/details/12?lawid=12
[3] http://www.legalinfo.mn/law/details/9242?lawid=9242

Principle 6	Promote ethical finance and corporate governance

	A Bank should develop an overall policy approach to ethical finance and corporate governance for its Business Activities that includes:
	- Procedures to incorporate exclusion lists and potentially sensitive activities into new client on-boarding and transaction screening/approval processes;
	- Establishing appropriate governance structures that support internal decision-making processes (e.g. escalation/approval criteria, audit procedures, etc.);
	- Mechanisms to raise potential cases of unethical or criminal behaviour;
	- Integrating corporate governance considerations into client and transaction assessments to consider if clients have:
	  - Appropriate governance policies, codes of ethics/conduct (including anti-corruption and money laundering issues), dedicated executive and non-executive staff to manage governance issues, and independent audit procedures in place;
	  - A grievance mechanism for public and employee issues to be addressed, such as corruption or illegal activities, in a manner that protects the interests of the reporting persons;
	  - Involvement with any ongoing investigations or legal disputes involving illegal activities or issues relating to corruption, breaches of competition law, and/or disputes over consumer protection.

Good Practice References	• UNEP FI report on Integrated Governance: A new model of governance for sustainability. (Link) • IFC Corporate Governance Project in Vietnam, China and East Asia provides useful information including scorecards and reports on good practices. (Link) • Rabobank Anti-corruption Statement (Link), Armaments Policy (Link) and a number of other positions on controversial themes e.g. Genetically Modified Organisms and Animal Welfare. (Link) • HSBC's Forestry Policy clearly highlights activities they will and will not finance. (Link) • ANZ's Military Equipment Policy is a good example of what military equipment they will not finance. (Link) • Danske Bank Screening guidelines. Useful reference list of further internationally recognised norms and standards used by the Danish bank in its screening activities. (Link) • ABN AMRO Defence and Sector Specific policies that outline acceptable and non-acceptable activities. (Link)

Demonstrating Progress	In order to demonstrate progress in implementing this principle, a Bank should:
	• Develop a policy approach on ethical finance and corporate governance which includes:
	  • Clearly defined excluded or sensitive activities the Bank will not finance and guidance on corporate governance frameworks required for the Bank and its clients;
	  • Integrating excluded or sensitive activities into Bank screening procedures for new clients and transactions as part of regular due diligence procedures;
	  • Invest in resources and staff training to create awareness about excluded/sensitive activities, as well as good corporate governance execution;
	  • Any performance related incentives, internal and external audit requirements, and governance responsibility and escalation criteria for risk committees.

Principle 6	Promote ethical finance and corporate governance
	• Establish an internal ethics and corporate governance committee; • Actively support industry initiatives that tackle corporate governance issues, particularly for clients operating in sensitive sectors.

Principle 7	Promote transparency and accountability
We will promote transparency and accountability and report on our progress against our sustainable finance commitments.	
What does this Principle mean?	In the course of implementing the Mongolian Sustainable Finance Principles, a Bank shall implement strong reporting practices that are characterised by a high degree of transparency and accountability and evidence progress against environmental and social commitments, while recognising the need to maintain client confidentiality. Where possible, a Bank will actively support relevant industry collaboration relating to environmental and social performance, as well as fostering exchange of knowledge and good practice to help level the playing field in Mongolia with regard to sustainable finance.
Relevant International Standards	- GRI Guidelines for the Financial Sector highlights best practice reporting for sustainability issues specifically for a Bank's Business Activities. (Link) - GRI International Reporting Guidelines, G4 is the latest version of internationally accepted best practice in sustainability reporting. A number of different sector supplements can be useful in assessing client transparency and accountability progress. (Link) - AccountAbility produced a set of accountability standards (AA1000 Principles) for businesses to demonstrate strong corporate responsibility and sustainable development. (Link)
Implementation of Principle 7	As part of its sustainable finance policy and procedures, a Bank will regularly and frequently monitor and measure performance against each of the Principles and will report progress against targets to its relevant internal and external stakeholders. Internal reporting mechanisms on the Principles should be consistent with and be integrated into decision-making processes of the Bank. When implementing this Principle, a Bank should: - Report on progress against each one of the Sustainable Finance Principles; - Include clear targets and performance indicators, ideally showing year-on-year targets and progress where possible (e.g. clients/transaction assessed, people trained, etc.); - Integrate the necessary policies, processes and procedures into the main credit approval, risk management and governance systems of the Bank; - Ensure the necessary systems are in place to collect and consolidate appropriate data; - Determine the most appropriate internal and external reporting frequency and format based on stakeholder requirements; - Seek feedback and dialogue between the Bank and its various stakeholders. A Bank shall seek consistency with international best practice reporting standards such as GRI and other relevant national reporting requirements, as well as the standards outlined in the Sustainable Finance Principles.

Principle 7	Promote transparency and accountability
Good Practice References	• The Equator Principles developed a best practice guidance note on reporting against the principles that offers an example of the types of reporting Banks are undertaking around sustainable finance. (Link) • UNEP-FI have created a report outlining a number of case studies relevant to emerging markets around reporting on Sustainability well: Sustainability Management and Reporting: Benefits for Financial Institutions in Developing and Emerging Economies. (Link) • ICT Sector Supplement to the Greenhouse Gas (GHG) Protocol Product Accounting and Reporting Standard: product efficiency standards is a good example of how a Bank or its clients can be more accountable and report on GHG emissions. (Link)

Demonstrating Progress	In order to demonstrate progress in implementing this principle, a Bank should:
	• Publicly report on progress, successes and relevant dilemmas in implementing the Sustainable Finance Principles, around relevant themes contained in each principle, such as environmental protection, human and labour rights, cultural heritage, supporting green economy growth, financial inclusion, etc. on an annual basis. This includes, but is not limited to:
	  ◦ Defining appropriate metrics and data requirements and ensuring the relevant data is being collected;
	  ◦ Providing internal reports to senior and/or strategic decision making bodies within the Bank;
	  ◦ Publishing an annual sustainability report, either as part of the main Annual Report for the Bank's stakeholders or a standalone sustainability report. This may include content published online (i.e. Bank websites) or in printed reports;
	  ◦ For each principle a Bank should aim to outline what initiatives and strategies they have delivered, progress made on these (including key metrics and impact measurements), and if appropriate successes and challenges in implementing the principle.

Principle 8	Practice what we preach
We will apply the same considerations to our own Business Operations that we are asking of our clients and will, as a sector, lead by driving positive environmental, social and economic development in Mongolia.	
What does this Principle mean?	A Bank shall apply Mongolian Sustainable Finance principles 1-7 to its own Business Operations. In doing so, a Bank seeks to act and demonstrate its commitment to sustainable business in the same manner it expects its clients to operate. This would include effectively managing the environmental and social footprint of the Bank's operations, ensuring its employees are treated fairly, and support local communities through philanthropic activities. A Bank will seek to put in place the necessary systems to manage the environmental and social impacts of its Business Operations. In addition, it will outline its position and role of being a good corporate citizen and clearly communicate and demonstrate the positive impact it is having in society.
Implementation of Principle 8	In implementing this Principle, a Bank will incorporate into its operational processes an approach that assesses and manages the environmental and social risks associated with its Business Operations. This system should aim to meet international best practice standards and cover the Bank's staff and its third party contractors and suppliers. A Bank should develop and implement a policy framework that adequately addresses the management of its own environmental and social impacts, its employees, and third party suppliers where appropriate. Such considerations could include but are not limited to: - A clear system for measuring the impact and managing the direct environmental footprint of the Bank's Business Operations, including its physical buildings, energy (i.e. fuel and electricity) and resource use (water, waste and paper, etc.) and carbon emissions; - Proper employee treatment and engagement (e.g. ensuring strong human resource policies are in place that respect and promote employment rights as well as ensure employee development); - Establish internal mechanisms for awareness raising and capacity building on environmental and social issues for its staff; - Criteria and standard requirements for suppliers (especially large primary suppliers) and third party contractor management to meet (e.g. a code of conduct) and demonstrate they are managing the associated environmental and social risks and impacts; - Dedicated resources and a strategy for working with charity/not-for-profit partnerships (e.g. environmental or social stewardship projects) and Community Investment (e.g. including employee volunteering, donations, etc.).
Good Practice References	• Standard Chartered: Being a responsible company shows an advanced integrated approach to managing sustainability across the whole business. (Link) • Royal Bank of Scotland has recently developed a new Code of Conduct that embodies sustainability into their entire business approach. (Link) • HSBC Water Programme – a five-year programme in partnership with WWF, Earthwatch and WaterAid is a good example of how a bank can establish partnerships to conduct

Principle 8	Practice what we preach
	philanthropic initiatives around important development goals, as well as developing staff and offering opportunities for employee volunteering. (Link) • ISO14001: environmental management system and standards for businesses and organisations. (Link) • Environmental Efficiency at HSBC demonstrates how Bank's are tackling these issues. (Link) • The Water Footprint Assessment Manual 2011, Water Footprint Network: assessment methods and response options. (Link) • Greenhouse Gas Protocol Initiative: standards and tools to manage institutional GHG footprint. (Link) • Forest Stewardship Council (FSC): rules and methods guiding the certification of sustainable paper and paper products. (Link) • Standard Bank provide a good example of involving employees in investing into communities (both volunteering time and financial donations). (Link)

Demonstrating Progress	In order to demonstrate progress implementing this principle, a Bank should:
	• Develop an overall approach or code of conduct to manage its environmental and social impacts which includes, but is not limited to:
	  • Developing an environmental and social management system that meets international standards (i.e. ISO 14001 certification) and covers the Bank's position on supplier management, community investment and energy/resource usage;
	  • Invest in resources and staff training to create awareness about sustainability and its relevance for the Bank;
	  • A strategy for committing and deploying resources for community investment;
	  • Reporting on the Bank's environmental and social performance annually, ideally including long-term targets for reducing and improving on performance year-on-year.

Appendix 1: Exclusion List and Sensitive Activities Requiring Additional Due Diligence

The list of excluded activities has been created considering both international best practice and relevant Mongolian laws. The exclusion list may contain some items that are not usually financed in Mongolia however this is because it has been designed to be appropriate for both domestic and international financing opportunities, if they arise.

The following two lists outline: a) prohibited/excluded activities that a Bank should use to screen potential investments; and b) a list of potentially sensitive activities that may require additional due diligence and consideration:

A) Prohibited/Excluded Activities

1. Activities prohibited by Mongolian law or any international laws, conventions and agreements Mongolia assigns to;
2. Plantation of psychoactive plants, production, transport, trade of narcotics if not regulated by the law;
3. Inappropriate or illegal gambling or casino businesses;
4. Marketing, supporting, and organising pornographic acts;
5. Harmful and exploitative forms of forced labour, intolerable forms of child labour, discrimination, and any activity that limits worker's freedom of association and the right to collective bargaining as prescribed in the law;
6. Production, trade of guns and weapons of war;
7. Profiting through multi-level marketing and pyramid scheme;
8. Exporting, importing, and trading across countries without proper licenses and permission from applicable countries;
9. Activities located in international and nationally protected areas;
10. Activities prohibited by the international conventions and agreements on protection of biological diversity, historic and cultural heritage;
11. Production, trade, and usage of asbestos and any products containing it;
12. Production and trade of any products containing PCBs-Polychlorinated biphenyls;
13. Production, trade of products and products containing internationally banned ozone depleting substances;
14. Production, trade of internationally banned medicine, tablets, insecticides, and other harmful substances;
15. Trade of specimens of wild animals and plants as prohibited by the CITES;
16. Unsustainable fishing methods (e.g., blast fishing)
17. Transportation and disposal of internationally banned waste materials;
18. Timber production in forestry areas with a high conservation value (e.g. Khangai Forest) and any trade of forestry and logging equipment linked to protected areas;
19. Timber production, trade of wood and forest products that did not originate from sustainably managed forests;
20. Eliminated and prohibited items as outlined in Rotterdam Convention and Stockholm Convention.

B) Potentially sensitive activities that require additional due diligence

1. Any activities involving the forced resettlement of citizens;
2. Any activity involving land disputes where local community require it for subsistence livelihoods, any operations close to specially protected areas, any activity within the native range of critically endangered and endangered species and biodiversity, and/or involving ecologically and economically significant lands;
3. Any activity that might, damage or destroy archaeological, historical and cultural heritage;

4. Trade and domestication of genetically modified organisms (GMO);
5. Nuclear energy (exploitation, processing, enrichment of uranium, nuclear fuel storage, transportation, nuclear energy distribution);
6. Production, trade of radioactive materials and radioactive waste material storage and transportation;
7. Large projects involving oil, natural gas and construction of natural gas pipeline;
8. Large projects involving ferrous and non-ferrous metals;
9. Construction of hydro-electric stations and thermo plant;
10. Disposal of domestic waste and hazardous waste materials;
11. Any project that results in a significant negative impact on labour conditions and well-being, and any project that has social, economic negative impact;
12. Production and trade of tobacco, and alcoholic beverages, except beer and wine.