

This S&P Global Ratings Second Party Opinion (SPO) represents our opinion on whether the documentation of a sustainable finance framework or program and whether the documentation of a sustainable finance transaction aligns with certain third-party published sustainable finance principles, guidelines, and standards ("Principles"). For more details please refer to the Analytical Approach and Analytical Supplement, available at [spglobal.com](https://www.spglobal.com) under [Sustainable Financing Opinions](#). An SPO provides a point-in-time opinion, reflecting the information provided to us at the time the SPO was created and published, and is not surveilled. We assume no obligation to update or supplement the SPO to reflect any facts or circumstances that may come to our attention in the future. An SPO is not a credit rating, and does not consider credit quality or factor into our credit ratings.

Second Party Opinion

Mongolia's SDG Bond Framework

June 14, 2023

Landlocked Mongolia is a sparsely populated East Asian country of 3.3 million people inhabiting over 1.564 million km² of land.

Close to half of the population lives in its capital city, Ulaanbaatar, which concentrates approximately 65% of the nation's economic production. Traditionally a subsistence-based economy relying on herding and agriculture, the country has been urbanizing fast, with about 70% of the population in cities today. That said, a third of the population remains nomadic or semi-nomadic.

In 2020, the Human Development Index of Mongolia stood at 0.737, still a modest ranking of 99 out of 189 countries. Mongolia is a lower-middle-income economy, with a current GDP per capita of about US\$4,500. Between 2010 and 2020, the country experienced average annual real GDP growth of 6.7%. However, its development has disproportionately relied on external factors such as commodities.

In our view, Mongolia's framework for Sustainable Development Goal Bonds (SDG Bonds), published in June 2023, is aligned with:

- ✓ Social Bond Principles, ICMA, 2021 (with June 2022 Appendix) (SBP)
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix) (GBP)
- ✓ Sustainability Bond Guidelines ICMA, 2021 (SBG)

Issuer's Sustainability Objectives

Vision 2050, which Mongolia ratified in 2020, is the government's key long-term vision for the outlining and implementation of country's Sustainable Development Goals (SDGs).

Mongolia has shorter-term plans to put in motion the long-term objectives, such as the "Five-year Development Guidelines for 2021-2025," and the "Government Action Program for 2020-2024".

Primary Analyst

Bertrand Jabouley
Singapore
+61-6239-6303
bertrand.jabouley@spglobal.com

Secondary Analysts

Vanessa Lai
Hong Kong
+852-2912-3019
vanessa.lai@spglobal.com

YeeFarn Phua
Singapore
+65-6239-6341
yeefern.phua@spglobal.com

Second Party Opinion

Goals of Vision 2050

Shared values of the nation	Growing as a nation with a deep sense of national identity sharing common values
Human development	Bringing Mongolia's Human Development Index value to 0.9 and to be ranked in the top 10 countries of the World Happiness Index
Life quality and middle class	Increasing the population share of the middle-income group to 80% by 2050, sustained by favorable living conditions
Economy	Crossing the threshold for developed countries by boosting GDP 6.1x and GDP per capita by 3.6x to US\$15,000
Good governance	Establishing good governance with full respect for human rights and justice and zero tolerance for corruption
Green growth	Promoting environmental sustainability combined with green growth
Peaceful and safe society	Creating internal and external environment to protect the vital national interests
Regional development	Developing in-country regions that have joined regional economic integrations and with sustainable structure of human settlement and competitive qualities
Ulaanbaatar city and satellite cities	Building people-centered cities with comfortable and environment-friendly living conditions

Source: Mongolia's Development Model.


The country claims that Vision-2050's scope covers 80% of the SDG targets. The national plan focuses especially on three SDGs.

These are (a) SDG 2: Zero Hunger (with a focus on infantile and children undernourishment); (b) SDG 7: Affordable and Clean Energy (in 2018, Mongolia ranked sixth out of 73 countries with the heaviest air pollution, with Ulaanbaatar in fifth place out of 62 capital cities); and (c) SDG 15: Life on Land, given major pressures on its domestic ecosystems, including soil erosion and water runoff.

Mongolia has developed its SDG Bond Framework to demonstrate how the country intends to raise and direct financing to projects that will deliver social and environmental benefits in close alignment with the SDGs.

Second Party Opinion Summary


Use of proceeds

Alignment  Mongolia's SDG Bond Framework is aligned with this component of the SBP, GBP, and SBG.

Score Not aligned **Aligned** Strong Advanced

Mongolia will allocate an amount equal to the net proceeds raised under the framework exclusively to eligible green or social projects that contribute to specific targets under the U.N.'s SDGs. The extensive list of eligible projects includes some project types that may have less environmental or social benefits than others, and the target populations for some social projects are broadly defined, potentially constraining the impact of the country's sustainable financing. Mongolia will disclose the share of refinancing versus new financing and the maximum look-back period is three years.


Process for project evaluation and selection

Alignment  Mongolia's SDG Bond Framework is aligned with this component of the SBP, GBP, and SBG.

Score Not aligned **Aligned** Strong Advanced


The framework describes the process for project evaluation and selection, including the exclusionary criteria for eligible projects. Mongolia's Ministry of Finance and Ministry of Economy and Development will lead the screening of projects up to the government's approval and ensure their initial and continued eligibility. The wording around identifying and managing potential social and environmental risks could be clearer.

Management of proceeds

Alignment  Mongolia's SDG Bond Framework is aligned with this component of the SBP, GBP, and SBG.

Mongolia will earmark an amount equivalent to the net proceeds from bonds issued under the framework for eligible projects using a dedicated SDG Bond register. It will deposit the proceeds in its general funding accounts and keep proceeds pending allocation in treasury.

Reporting

Alignment  Mongolia's SDG Bond Framework is aligned with this component of the SBP, GBP, and SBG.

Score Not aligned **Aligned** Strong Advanced

Mongolia commits to disclosing allocation and impact reporting annually until full allocation of the net proceeds. The reports will include the amount allocated to each eligible category, the breakdown of proceeds allocated to financing and refinancing, and, subject to data availability, the expected impact of projects financed, among others. In addition, the country will hire an external party to verify its allocation reporting post issuance.

Framework Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 Mongolia's SDG Bond Framework is aligned with this component of the SBP, GBP, and SBG.

Commitments score

Not aligned

Aligned

Strong

Advanced

We consider Mongolia's overall use of proceeds commitments to be aligned.

The country pledges to use an amount equal to the net proceeds of instruments issued under its framework exclusively to finance or refinance eligible green or social projects. Eligible projects include investment, fiscal and operating expenditures, and subsidies. The framework has 10 eligible categories, in line with the environmental and social project categories of the principles. Each category presents at least one objective and references SDG targets. These targets are consistent with the objectives of Vision 2050.

Access to essential services cover access to health and access to education, with the objectives to improve healthy life expectancy and provide affordable, equitable, and quality education for all living in Mongolia. At 15 deaths per 1,000 live births, Mongolia's infant mortality rate is lower than that of similarly economically developed countries. Life expectancy is likewise better than other nations with similar GDP per capita. However, the situation between urban and rural areas bears a stark contrast. Employment generation and women and youth empowerment aim to reduce unemployment in target groups, such as those living below the poverty line, as defined by the National Statistical Office, people between 15 and 24, people with disabilities or vulnerable groups (with no official definition).

The category on renewable energy and energy efficiency overlaps with that on pollution prevention and control in that both strive to improve air quality, which is an important issue in the country. This is because coal accounts for 70% of Mongolia's primary energy source and 90% of the electricity generation, according to the International Energy Agency. Under its nationally determined contribution under the Paris Agreement, Mongolia intends to reduce its greenhouse gas emissions by 22.7% by 2030, compared to the business-as-usual scenario, excluding agriculture. Clean and sustainable transport focuses on affordable and equitable mobility but will be part of Mongolia's effort to reduce air pollution as well. The country's sustainable water and waste management seeks to address some water availability issues. While the water endowment per capita is high, regional differences in rainfall and population creates availability issues, especially for Ulaanbaatar inhabitants and mining companies in the Gobi region.

Both environmental and social objectives are found in three categories: (1) sustainable cities and housing and infrastructure, (2) sustainable agriculture and food security, and (3) sustainable land use, forestry, biodiversity conservation, and eco-tourism. Those objectives include accessibility to property, conservation of biodiversity and food security. Climate change and deforestation are responsible for an increase in desertification, natural disasters, and land degradation. Land protection relates directly to food security for the population. A fourth of Mongolians grapple with some food insecurity, and a large portion of the food available on the market, such as fresh fruits and vegetables, is imported.

Mongolia will disclose the share of financing versus refinancing and the maximum look-back period for refinanced projects will not exceed three years from the time of issuance, in line with market practice.

Overall, the extensive list of eligible projects includes some project types that may have relatively less environmental or social benefits and the target populations for some social projects are broadly defined, potentially constraining the impact of Mongolia's sustainable financing.

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For the process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

 Mongolia's SDG Bond Framework is aligned with this component of the SBP, GBP, and SBG.

Commitments score

Not aligned

Aligned

Strong

Advanced

We consider Mongolia's overall process for project selection and evaluation commitments to be aligned.

Ministries are responsible for identifying and submitting their projects for selection. The Ministry of Finance and the Ministry of Economy and Development will screen the projects based on their eligibility and impact. They will propose shortlisted projects to the government for approval. The U.N. Development Program (UNDP) and potentially other international organizations dedicated to advancing the SDGs will be involved as observers during the evaluation and selection of projects, adding transparency to the process. However, no information is available on the frequency of project screening and review, or on the individuals participating in the ministries.

The process for identifying and selecting projects includes a broad exclusionary list (covering fossil fuel, nuclear, agriculture projects related to forest conversion, weapons, alcohol, child or forced labor, among others).

Mongolia will identify and manage potential environmental and social risks associated with financed projects according to its regulations. Projects will also be assessed against the SDG impact criteria, a methodology with measures on negative unmitigated impacts on the environment, population, and economy, among others. The wording around identifying and managing potential social and environmental risks could be clearer.

For social categories, the framework only discloses eligibility criteria in line with government definitions for people living below the poverty line, with less specific definitions for displaced or disabled people; having specific definitions would have added objectivity to the selection process. Likewise, eligibility criteria for some of the project categories, including those related to sustainable cities and housing and infrastructure, could be clearer.

Not all project categories include clearly defined thresholds or incorporate market-based taxonomies. While this is common for frameworks with an extensive list of eligible categories, it could reduce the associated benefit of those projects. The framework makes references to green building certifications for sustainable cities and for housing and infrastructure, and to performance thresholds in renewable energy and energy efficiency (e.g. solar facilities shall have no more than 15% of electricity generated from non-renewable sources, bio-energy must have 80% reduction in greenhouse gas emission compared with fossil fuel baseline and must be sourced from a sustainable feedstock).

Management of proceeds

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 Mongolia's SDG Bond Framework is aligned with this component of the SBP, GBP, and SBG.

Mongolia will track all proceeds from instruments issued under the framework through a dedicated SDG Bond register. The register will include (1) summaries of project details, (2) the amount of proceeds allocated to each eligible project, (3) the expected environmental or social impacts of eligible expenditures, and (4) the amount of unallocated proceeds.

Mongolia aims to allocate the proceeds to eligible projects within two years of receipt of funds.

Second Party Opinion

In case of asset divestment or where projects cease to be eligible, the Ministry of Finance will ensure a timely reallocation of proceeds, so that the balance of tracked net proceeds matches the allocations to eligible expenditures.

The framework lacks detail on temporary management of proceeds, merely stating it will keep such proceeds pending allocation in treasury.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 Mongolia's SDG Bond Framework is aligned with this component of the SBP, GBP, and SBG.

Commitments score

Not aligned

Aligned

Strong

Advanced

We consider Mongolia's overall reporting practices to be aligned.

Mongolia will publish allocation and impact reports annually as long as any SDG Bond remains outstanding and in case of material developments. Such documents will be available on the Ministry of Finance's website.

The allocation reporting will include aggregated invested projects by eligible category, the outstanding amount of instruments raised under the framework, the share of new financing and refinancing, the balance of unallocated proceeds, and case studies of social or green projects, subject to confidentiality requirements.

Subject to data availability, Mongolia will provide information on the expected impact of financed projects. The framework includes a comprehensive list of indicators. Without mentioning it, the framework largely borrows from the International Capital Market Association's (ICMA) Harmonized Framework for Impact Reporting for both social and green bonds.

For green categories, such information will include the renewable energy capacity in megawatt, the greenhouse gas emissions avoided in tons of carbon dioxide (CO₂) equivalent (renewable energy), the concentration of particulates in the air (pollution prevention and control), the volume of water recycled, the number of people benefiting from access to water (sustainable water and waste use).

Metrics for social projects include the number of people per doctor or nurse for access to health, children (by gender) per kindergarten teacher or primary school teacher for access to education, jobs created and training programs for employment generation. The social impact indicators focus typically on the count of beneficiaries.






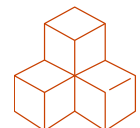
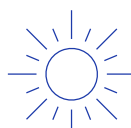


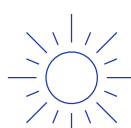
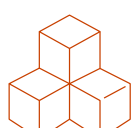

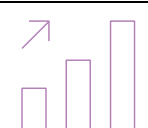
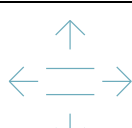
Mongolia will engage an external reviewer to verify the allocation of the net proceeds. However, they do not commit to disclosing the calculation method and key assumptions for the environmental and social metrics, nor to report on the actual impact of eligible projects.

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

The SDGs, which the U.N. set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the ICMA's SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

Mongolia's SDG Bond Framework intends to contribute to the following SDGs:

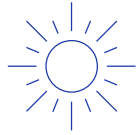
Use of proceeds	SDGs			
Access to health				
	*3. Good health and well-being	5. Gender equality		
Access to education				
	*4. Quality education	5. Gender equality	*8. Decent work and economic growth	*9. Industry, innovation and infrastructure
Renewable energy and energy efficiency				
	*7. Affordable and clean energy	*11. Sustainable cities and communities	13. Climate action	
Sustainable cities and housing and Infrastructure				
	*7. Affordable and clean energy	*9. Industry, innovation and infrastructure	*11. Sustainable cities and communities	
Employment generation, and women and youth empowerment				
	*8. Decent work and economic growth	*10. Reduced inequalities		

Second Party Opinion

Use of proceeds

SDGs

Pollution prevention and control



7. Affordable and clean energy



***11. Sustainable cities and communities**

Sustainable water and waste use



2. Zero hunger



***6. Clean water and sanitation**



***11. Sustainable cities and communities**

Sustainable agriculture and food security



***2. Zero hunger**

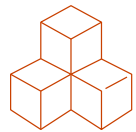


6. Clean water and sanitation



15. Life on land

Sustainable land use, forestry, biodiversity conservation and eco-tourism



9. Industry, innovation and infrastructure



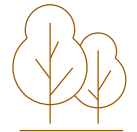
***11. Sustainable cities and communities**



***12. Responsible consumption and production**

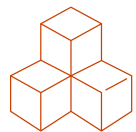


13. Climate action

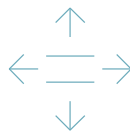


***15. Life on land**

Clean and sustainable transport



9. Industry, innovation and infrastructure



10. Reduced inequalities



***11. Sustainable cities and communities**



13. Climate action

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

Second Party Opinion

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

The Product is not a credit rating, and does not consider credit quality or factor into our credit ratings. The Product does not consider, state or imply the likelihood of completion of any projects covered by a given financing, or the completion of a proposed financing. The Product encompasses Second Party Opinions and Transaction Evaluations. Second Party Opinions consider features of a financing transaction and/or financing framework and provide an opinion regarding alignment with certain third-party published sustainable finance principles and guidelines ("Principles"). For a list of the Principles addressed by our Second Party Opinions, see the Analytical Approach and Analytical Supplement, available at www.spglobal.com. Transaction Evaluations provide an opinion which reflects our assessment of the potential relative environmental benefit of the funded or resilience projects. The Product is a statement of opinion and is neither a verification nor a certification. The Product is a point in time evaluation reflecting the information provided to us at the time that the Product was created and published, and is not surveilled. The Product is not a research report and is not intended as such.

S&P's credit ratings, opinions, analyses, rating acknowledgment decisions, any views reflected in the Product and the output of the Product are not investment advice, recommendations regarding credit decisions, recommendations to purchase, hold, or sell any securities or to make any investment decisions, an offer to buy or sell or the solicitation of an offer to buy or sell any security, endorsements of the suitability of any security, endorsements of the accuracy of any data or conclusions provided in the Product, or independent verification of any information relied upon in the credit rating process. The Product and any associated presentations do not take into account any user's financial objectives, financial situation, needs or means, and should not be relied upon by users for making any investment decisions. The output of the Product is not a substitute for a user's independent judgment and expertise. The output of the Product is not professional financial, tax or legal advice, and users should obtain independent, professional advice as it is determined necessary by users.

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

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

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

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

For PRC only: Any "Sustainable Financing Opinions" or "assessment" assigned by S&P Global Ratings: (a) does not constitute a credit rating, rating, sustainable financing framework verification, certification or evaluation as required under any relevant PRC laws or regulations, and (b) is not intended for use within the PRC for any purpose which is not permitted under relevant PRC laws or regulations. For the purpose of this section, "PRC" refers to the mainland of the People's Republic of China, excluding Hong Kong, Macau and Taiwan.

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.