ESCAP
Economic and Social Commission for Asia and the Pacific

MONGOLBANK
CENTRAL BANK OF MONGOLIA

ANALYSIS OF BEST PRACTICES FOR ESG RISK BASED SUPERVISION AND RECOMMENDATIONS FOR THE BANK OF MONGOLIA

Discussion Paper

May 2025

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The study draws on current and upcoming ESG reporting frameworks under the jurisdictions of Bank of Mongolia, the Mongolian Stock Exchange and Financial Regulatory Commission developed by the regulators, Mongolian Sustainable Finance Association and development partners. It provides recommendations to the Bank of Mongolia on the operationalization of an ESG risk-based supervision framework,

Preliminary findings of this document were presented and validated at the stakeholder workshop held at the Bank of Mongolia office in Ulaanbaatar on 7 May 2025.

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Groupings of countries and territories/areas referred to are listed alphabetically as follows:

ESCAP region: Afghanistan; American Samoa; Armenia; Australia; Azerbaijan; Bangladesh; Bhutan; Brunei Darussalam; Cambodia; China; Cook Islands; Democratic People’s Republic of Korea; Fiji; French Polynesia; Georgia; Guam; Hong Kong, China; India; Indonesia; Iran (Islamic Republic of); Japan; Kazakhstan; Kiribati; Kyrgyzstan; Lao People’s Democratic Republic; Macao, China; Malaysia; Maldives; Marshall Islands; Micronesia (Federated States of); Mongolia; Myanmar; Nauru; Nepal; New Caledonia; New Zealand; Niue; Northern Mariana Islands; Pakistan; Palau; Papua New Guinea; Philippines; Republic of Korea; Russian Federation; Samoa; Singapore; Solomon Islands; Sri Lanka; Tajikistan; Thailand; Timor-Leste; Tonga; Türkiye; Turkmenistan; Tuvalu; Uzbekistan; Vanuatu; and Viet Nam.

Least developed countries: Afghanistan, Bangladesh, Cambodia, Kiribati, Lao People’s Democratic Republic, Myanmar, Nepal, Solomon Islands, Timor-Leste, Tuvalu. Note: Bhutan, Maldives, Samoa and Vanuatu were part of the least developed countries prior to their graduation in 2023, 2011, 2014 and 2020, respectively.

Landlocked developing countries: Afghanistan; Armenia; Azerbaijan; Bhutan; Kazakhstan; Kyrgyzstan; Lao People’s Democratic Republic; Mongolia; Nepal; Tajikistan; Turkmenistan; and Uzbekistan.

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South-East Asia: Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor-Leste and Viet Nam.

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References to dollars ($) are to United States dollars, unless otherwise stated. The term "billion" signifies a thousand million. The term "trillion" signifies a million million.

In the tables, two dots (..) indicate that data are not available or are not separately reported; a dash (–) indicates that the amount is nil or negligible; and a blank indicates that the item is not applicable.

In dates, an en dash (–) is used to signify the full period involved, including the beginning and end years, and a stroke (/) indicates a crop year, fiscal year, or plan year.

ABBREVIATIONS AND ACRONYMS

AI	Artificial Intelligence	ESGRM	ESG Risk Management
BCBS	Basel Committee on Banking Supervision	ESGRMS	ESG Risk Management System
BCP	Basel Core Principles for Effective Banking Supervision	ESRS	European Sustainability Reporting Standards
BOM	Bank of Mongolia	EU	European Union
CDP	Carbon Disclosure Project	FC4S	Financial Centers for Sustainability
CEO	Chief Executive Officer	FI	Financial Institution
COVID	Coronavirus Disease	FRC	Financial Regulatory Commission
CP	Core Principles	GEF	Global Environment Facility
CRD	Capital Requirements Directive	GHG	Greenhouse Gas
CRR	Capital Requirements Regulation	GRI	Global Reporting Initiative
C&E	Climate and Environmental	IEA	International Energy Agency
DBM	Development Bank of Mongolia	IFC	International Finance Corporation
2DII	2 Degrees Investing Initiative	IFRS	International Financial Reporting Standards
EBA	European Banking Authority	ILO	International Labour Organization
ECL	Expected Credit Loss	IPCC	Intergovernmental Panel on Climate Change
EPA	Environmental Protection Agency	ISO	International Organization fo Standardization
ESCAP	Economic and Social Commission for Asia and the Pacific	ISS	Institutional Shareholder Services group of companies
ESG	Environmental, Social, and Governance	ISSB	International Sustainability Standards Board
ESGRA	ESG Risk Assessment	IWA	International Workshop Agreement

KPIs	Key Performance Indicators	S1	IFRS Sustainability Disclosure Standard 1
LGD	Loss Given Default	S2	IFRS Sustainability Disclosure Standard 2
ML	Machine Learning	SASB	Sustainability Accounting Standards Board
MNT	Mongolian Tögrög	SBTi	Science-Based Targets Inititive
MRV	Monitoring, Reporting, and Verification	SDGs	Sustainable Development Goals
MSCI	Morgan Stanley Capital International	SME	Small and Medium Enterprise
MSE	Morgan Stanley Capital International	SPO	Second Party Opinion
MSFA	Mongolia Sustainable Finance Association	TCFD	Task Force on Climate-related Financial
MSMEs	Micro, Small and Medium Enterprises	TDB	Disclosures
NDC	Nationally Determined Contribution	TNFD	Trade and Development Bank
NGFS	Network for Greening the Financial System	UN	Taskforce on Nature-related Financial
NLP	Natural Language Processing	UNDP	Disclosures
NPS	Net Promoter Score	UNEP-FI	United Nations
PACTA	Paris Agreement Capital Transition Assessment	US	United Nations Development Programme
PCAF	Partnership for Carbon Accounting Financials	VaR	Value at Risk
PDCA	Plan-Do-Check-Act		

EXECUTIVE SUMMARY

This discussion paper presents a comprehensive technical assessment of Environmental, Social, and Governance (ESG) reporting practices in Mongolia's banking sector and outlines a pathway for the Bank of Mongolia (BoM) to implement a credible ESG risk-based supervision framework. Against the backdrop of increasing climate vulnerabilities and a financial system heavily concentrated in high-emitting sectors, the paper positions the Bank of Mongolia's regulatory role as critical in both safeguarding financial stability and facilitating the country's sustainable finance transition. The analysis builds on previous collaborations between ESCAP, the Mongolian Sustainable Finance Association (MSFA), and the Bank of Mongolia, which has supported the introduction of climate scenario analyses and the development of climate-related disclosure guidance for the financial sector. While foundational initiatives by the Bank of Mongolia, such as the 2023 ESG Risk Management System (ESGRMS) regulation and the green loan target, have established important groundwork, this discussion paper emphasizes the need for deeper institutionalization and regulatory alignment are needed to enhance consistency, data quality, and long-term impact.

This paper defines ESG risks within the Mongolian context, focusing on both physical and transition climate risks, social vulnerabilities related to inequality and migration, and governance challenges tied to transparency and board accountability. International frameworks such as ISO's ESG Implementation Principles (IWA 48)[1], International Financial Reporting Standards (IFRS) S1/S2[2], Global Reporting Initiative (GRI)[3], and Sustainability Accounting Standards Board (SASB)[4] are critically reviewed, and their relevance to Mongolia's evolving ESG ecosystem is assessed. The report highlights that while Mongolia's current ESG reporting guidance, adopted by listed companies, is a promising foundation, the reporting content requires alignment with global standards to ensure interoperability and double materiality. The forthcoming 2025 update to the national reporting framework addresses many gaps of its predecessor, however, areas of further improvement are highlighted, including greater coverage of financed emissions (Scope 3), climate adaptation KPIs, and greater alignment with biodiversity-focused frameworks like the Taskforce on Nature-related Financial Disclosures (TNFD).

[1] ISO, "IWA 48:2024 Framework for implementing environmental, social and governance (ESG) principles", (Edition 1, 2024). Available at www.iso.org/standard/89240.html.
[2] IFRS, "IFRS Sustainability Standards Navigator". Available at www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/.
[3] Available at https://www.globalreporting.org/.
[4] Available at https://sasb.ifrs.org/

The central focus of the paper is to support the development of a ESG risk-based supervision framework by the Bank of Mongolia. It introduces a three-stage process of risk identification, assessment, and management anchored in international best practices. The paper recommends a phased implementation approach that begins with qualitative assessments and gradually evolves toward quantitative thresholds, scenario analysis, and portfolio-level risk modeling. It also underscores the importance of leveraging data already being collected via existing reporting channels, advocating for harmonized templates to reduce regulatory burden. Specific supervisory methodologies are outlined, including bottom-up climate stress testing (which has already been piloted), use of ESG risk assessment tools such as Paris Agreement Capital Transition Assessment (PACTA) and Partnership for Carbon Accounting Financials (PCAF), and alignment monitoring with Mongolia's SDG taxonomy. To enable efficient supervision, the paper encourages the regulators to integrate emerging technologies such as artificial intelligence, blockchain, and cloud-based systems for automating ESG data validation, scenario simulation, and risk trend analysis in the longer-term horizon.

The paper concludes that Mongolia's policy, supervisory, and market infrastructure is well-positioned to embed ESG considerations within its financial system, but meaningful progress hinges on regulatory coordination, improved enforcement, and investment in supervisory capacity. The Bank of Mongolia is advised to build on its current mandates by formally institutionalizing ESG risk-based supervision, strengthening the legal reporting framework, and developing unified ESG data infrastructure. These actions will not only support climate-resilient financial systems but also bolster Mongolia's credibility and leadership in sustainable finance among emerging economies.

Photo Credit : AdobeStock_509526790

I: INTRODUCTION

Climate change has become a critical concern for central banks due to its far-reaching implications for financial stability and the broader economy. Both physical climate risks (such as extreme weather events) and transition risks (such as shifts toward low-carbon economies) affect financial and economic systems through macro- and microeconomic transmission channels, creating direct and indirect implications to the core mandates of central banks. At the same time, achieving the goals of the Paris Agreement and Mongolia's Nationally Determined Contribution (NDC) will require mobilizing and redirecting significant financial flows toward green and sustainable investments.

Central banks therefore have a key role in fostering an enabling environment to boost green and sustainable finance while effectively managing climate change-related risks. The Bank of Mongolia has set forth an objective to manage the adverse effects of climate change. Greening the financial sector has been established as a critical goal of the government's 2022 Monetary Policy Guidelines. Within this context, Bank of Mongolia aims to introduce commonly accepted concepts and principles of green and sustainable finance to the banking sector, identify and assess various climate change risks that may affect the financial system and strengthen the financial system's resilience to these risks.

ESG risks, in particular environmental risks through transition and physical risk drivers, pose challenges to the safety and soundness of institutions and may affect all traditional categories of financial risks to which they are exposed. To ensure the resilience of the business model and risk profile of institutions in the short, medium and long term, the central bank must assess the state of the internal processes and ESG risks management arrangements that institutions should have in place.

ESG frameworks provide structured guidelines for identifying, assessing, and managing climate risks while promoting sustainable development. They enable businesses and financial institutions to enhance their resilience, attract sustainable investments, and align with global sustainability goals such as the Paris Agreement and the UN Sustainable Development Goals (SDGs). By adopting clear reporting standards and frameworks, Mongolia can bolster investor confidence, improve transparency, and ensure long-term economic stability while positioning itself as a leader in sustainable finance among developing countries.

In Mongolia an ESG and sustainability reporting guidance was developed in 2022 to support financial institutions and businesses in implementing ESG principles. The guidance also provides a reporting template to establish a foundation for sustainability reporting. As of 2024, several listed companies including banks are using the guidance and the template to report data on ESG indicators to the Mongolian Stock Exchange. In 2025, reporting for Tier 1 companies[5] of the stock exchange will be made mandatory, additionally the Financial Regulatory Commission, the MSFA and the Mongolian Stock Exchange are developing an online portal where this data can be digitally submitted.

However, to enhance its effectiveness and global comparability, the current template must align with international best practices and standards for ESG reporting. Frameworks such as ISO IWA:48,[6] IFRS S1/S2,[7] and GRI standards[8] provide valuable guidance for enhancing ESG reporting, focusing on materiality assessments, risk supervision, and the development of robust performance indicators.

This Discussion Paper explores the current Environmental, Social, and Governance (ESG) practices in the Mongolian banking system. The paper begins by examining the definitions and best practices for ESG risks, principles and standards. The second section highlights the general ESG reporting process and highlights relevant international best practices. This is followed by an analysis of the current supervisory framework for ESG risks in Mongolia and recommendations on the development of a comprehensive ESG risk-based supervision framework by the central bank. A risk-based supervision framework is essential for designing an effective ESG framework that mirrors the Mongolian economy, where risk identification, assessment, and risk management are key steps to mitigate climate impacts and enhance opportunities for sustainable economic growth. The paper proceeds to analyze the current ESG reporting guidelines used by listed companies and compares it to the key international standards and frameworks for ESG reporting such as the ISO IWA:48, GRI standards, IFRS S1/S2, and SASB. The planned 2025 update of the reporting framework is also analyzed and the improvements acknowledged, while at the same time this discussion paper ventures to suggest additional information that can be integrated to further solidify ESG risk reporting and assessment. Recommendations for the Bank of Mongolia are provided at the end of each section. The final section presents concluding remarks.

[5] MSE Tier I companies are high-quality issuers meeting the Mongolian Stock Exchange's most stringent listing criteria, including three years of IFRS-audited financials, stable management, adherence to corporate governance principles, and thresholds for revenue (₮5B) or profit (₮1B), and market capitalization (₮10B). Available at mse.mn/uploads/laws/MSE%20Listing%20Rules%20ENG.pdf

[6] ISO IWA 48:2024 is a voluntary framework developed by the International Organization for Standardization (ISO) to guide organizations in implementing Environmental, Social, and Governance (ESG) principles. Available at www.iso.org/standard/89240.html

[7] International Financial Reporting Standards IFRS - Who we are Available at www.ifrs.org/about-us/who-we-are/.

[8] The Global Reporting Initiative. Available at www.globalreporting.org/standards.

Photo Credit : iStock-687791314

II: DEFINITION AND BEST PRACTICE

II.I ESG principles, standards and frameworks

ESG principles guide businesses to manage their societal and environmental impacts responsibly and sustainably, enhancing non-financial risk management and fostering growth opportunities.[9] Rooted in frameworks like the UN Global Compact and SDGs,[10] ESG is grounded in actions towards sustainable resource use, pollution prevention, climate action, human rights, community engagement, ethical governance, and equitable labor practices.[11]

ESG risk management reflects the impacts and challenges businesses face in their environmental, social, and governance practices. Dual materiality underpins this approach, addressing how ESG factors impact financial performance and operational resilience (financial materiality) and broader social, environmental, and sustainability goals (impact materiality). ESG risk management has become an essential framework for meeting global regulations, stakeholder expectations, and investor concerns on issues such as climate change, human rights, and corporate governance. The following explanations of ESG risks and standards have been informed by and adapted from the European Banking Authority's work on management and supervision of ESG risks for credit institutions and investment firms.[12]

Environmental risks (E): Environmental factors pertain to the condition and operation of natural ecosystems and resources, encompassing elements like climate change, biodiversity, energy use, pollution, and waste management. Environmental risks refer to the financial threats an institution faces due to its exposure to counterparties or investments that could be impacted by or contribute

[9] What is ESG? (2022, March 2). Deloitte United Kingdom.
Available at https://www.deloitte.com/ce/en/services/consulting/perspectives/esg-explained-1-what-is-esg.html
[10] Eccles, R. G. (2022, November 7). From "Who Cares Wins" To Pernicious Progressivism: 18 Years Of ESG. Forbes.
Available at https://www.forbes.com/sites/bobeccles/2022/11/05/from-who-cares-wins-to-pernicious-progressivism-18-years-of-esg/
[11] Krantz, N., & Jonker, A. (2024, October 23). Environmental Social and Governance.
Available at https://www.ibm.com/topics/environmental-social-and-governance
[12] European Banking Authority. (2021, June). Report on management and supervision of ESG risks for credit institutions and investment firms (EBA/REP/2021/18).
Available at https://www.eba.europa.eu/sites/default/files/document_library/Publications/Reports/2021/1015656/EBA%20Report%20on%20ESG%20risks%20management%20and%20supervision.pdf

to environmental harm, such as climate change and ecological degradation (e.g., air and water pollution, freshwater scarcity, land contamination, biodiversity loss, and deforestation) (i.e. physical risks). These risks also include the potential financial consequences of policy measures designed to mitigate such environmental challenges (transition risks).[13]

Environmental standards

The environmental standards element of ESG focuses on the impacts of a business on the natural world, considering aspects such as the consumption of energy and raw materials, and its contribution to addressing environmental challenges. Key factors include greenhouse gas emissions (GHG), pollution, resource depletion, and waste management. These standards go beyond evaluating a business' direct environmental footprint to also consider its strategies to mitigate harm. This may include setting targets to reduce carbon emissions and adopting renewable energy, investing in sustainable resource use and circular economy models, or managing risks caused by climate change impacts (i.e. floods, droughts, biodiversity loss). Environmental standards reflect the position of businesses in being contributors to environmental challenges in addition to entities dependent on healthy ecosystems for resources and operational continuity.

Social risks (S): Social factors concern the rights, welfare, and interests of individuals and communities, covering aspects such as equality, health, inclusivity, labor relations, workplace safety, human capital, and community well-being. Social risks refer to the potential financial impact an institution may face due to the current or future effects of social factors on its counterparties or investments. These risks arise from multiple factors, including environmental degradation and societal transformation. Environmental risks, such as climate change and water stress, can worsen social issues by disproportionately affecting vulnerable populations, leading to migration and social unrest with global repercussions. Additionally, evolving policies and market expectations aimed at fostering a more inclusive and equitable society, such as those addressing equal pay, representation, and workforce diversity, can pose risks for companies unprepared to adapt. Unlike environmental risks, social risks do not fit neatly into categories like physical and transition risks, as social norms and policies evolve unpredictably and cannot be framed as a clear "transition".

[13] See Climate Change Impacts on Financial Sector in Mongolia for details assessment of physical and transition risks. Bank of Mongolia -ESCAP 2025

Social standards

The social standards component examines business' impact on people, both within and beyond their operations. These criteria focus on labor practices, community relations, diversity, and inclusion. Companies are assessed on commitments to activities such as ensuring fair labor practices and human rights compliance throughout supply chains, supporting community development through social investments and stakeholder engagement, and promoting workplace diversity and equity. These standards recognize the interconnectedness of businesses with the communities they serve, emphasizing the importance of fostering positive social impacts and equitable opportunities.

Governance risks (G): Governance factors encompass corporate practices such as executive leadership, compensation, audits, internal controls, tax strategies, board independence, shareholder rights, and measures to prevent corruption and bribery. They also include how entities integrate environmental and social considerations into their policies. In this context, governance refers to elements that can influence an entity's financial performance or stability, particularly in relation to its counterparties or investments. Governance risks arise from poor management of environmental and social issues or failure to comply with governance standards. Effective governance ensures that environmental and social factors are properly addressed, while neglecting these aspects in strategic planning can heighten governance risks. Recognizing climate and environmental challenges is viewed as a hallmark of strong governance.

Governance standards

Governance standards act to evaluate the internal policies and practices of businesses, ensuring that they operate with integrity and accountability. Criteria under governance focuses on elements such as transparency in decision-making and reporting (including disclosure of financial and non-financial performance), and prevention of corruption and unethical practices. In promoting fair and transparent management, governance standards aim to build trust among stakeholders while simultaneously reducing operational and reputational risks.

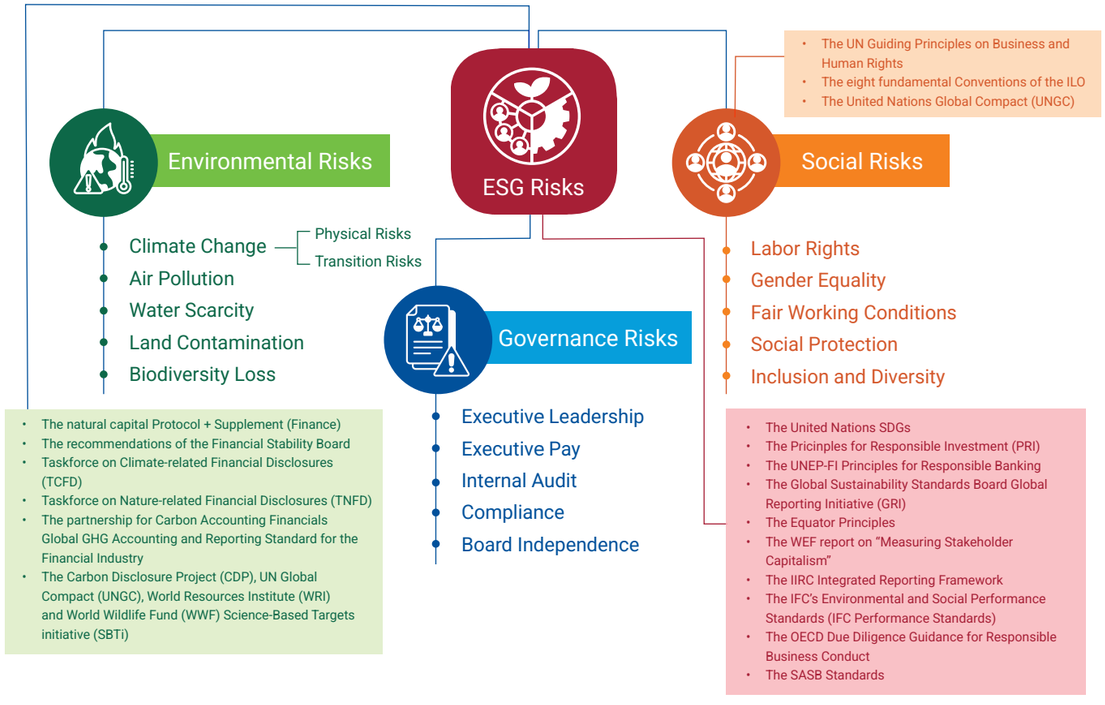
According to the Sustainability Accounting Standards Board (SASB), there is an important distinction between ESG Standards and Framework.[14] ESG standards provide specific, detailed and replicable requirements for what should be reported

[14] SASB Standards and other ESG frameworks - SASB. (2023, June 20). SASB. Available at https://sasb.ifrs.org/about/sasb-and-other-esg-frameworks/

for each topic, including metrics, whereas ESG Frameworks provide principles-based guidance on how information is structured, how it is prepared and what broad topics are covered.[15] Standards ensure uniformity and comparability in ESG reporting, and frameworks focus on guiding organizations or companies in identifying and addressing material ESG issues.

For example, the IWA 48 is an international framework that presents benchmarks for implementing ESG principles.[16] Organizations and companies use this framework to accurately disclose information relating to their business' operations in a standardized format, complementary and interoperable with existing voluntary and regulatory reporting standards such as the International Sustainability Standards Board (IFRS/ISSB) and the European Sustainability Reporting Standards (ESRS).[17] The quality of these disclosure commitments dictates the ESG-related performance of companies by investors, rating agencies and other stakeholders. The key focus is to ensure accountability and transparency in the entity's impact on environment and society, through the adoption of efficient and socially responsible governance structures.

Figure 1 ESG risk principles and framework



Source: ESCAP based on information from SASB

II.2 ESG reporting

ESG reporting is the process of documenting and disclosing environmental, social, and governance impacts, practices, and outcomes. IFRS Foundation introduced S1 and S2 guidelines in 2022, which provide a global baseline on how organizations should disclose sustainability-related information in their financial reports. IFRS S1 sets out the general requirements for disclosure of sustainability-related information while IFRS S2 captures climate specific related disclosure requirements. IFRS S1 and S2 should be applied together for comprehensive reporting compliance. IFRS S2 incorporates metrics derived from the SASB Standards, promoting consistency in reporting practices across different frameworks. Specifically, IFRS S1 establishes general principles for sustainability-related disclosures, which also apply when reporting climate-related information under IFRS S2, helping to ensure consistency and usefulness of the reported information.[18]

The IFRS mentions several key principles under S1 for effective disclosure :

- Focus on material impacts on value creation
- Be complete, neutral, and accurate
- Enable comparisons across entities and time
- Align with financial reporting
- Contain clear and accessible information
- Link sustainability and financial information
- Ensure disclosures are evidence-based

Under S2, the IFRS also mentions several key principles for effective climate-related disclosure[19].

- Explain climate oversight and controls
- Show how climate risks/opportunities impact strategy and business
- Detail climate risk assessment and management processes
- Report on emissions, targets, and progress

[15] Down, H. (2024, December 16). ESG reporting frameworks and standards – understanding the difference. EcoOnline.
Available at https://www.ecoonline.com/blog/esg-reporting-frameworks-and-standards-understanding-the-difference/
[16] IWA 48:2024. (n.d.). ISO.
Available at https://www.iso.org/standard/89240.html
[17] Corporate sustainability reporting - European Commission.
Available at https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en.
[18] Climate-Related Disclosure Guideline for Mongolian Financial Institutions: Learning by Doing, Bank of Mongolia, ESCAP and MSFA 2025
[19] IFRS - IFRS S2 Climate-related Disclosures. (n.d.).
Available at https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures.html/content/dam/ifrs/publications/html-standards-issb/english/2023/issued/issbs2-ag/#standard

These principles should ensure completeness, transparency, comparability, accuracy, and efficiency. This entails capturing all significant sectors and regions of business activity to present a comprehensive and holistic overview of progress on ESG principles incorporation.[20]

While ESG reporting primarily serves to meet the increasing legal requirements over sustainability disclosures, establishing effective, clear, and transparent ESG reporting practices serves as a risk management tool, builds trust among stakeholders, and inform investors of possible investment opportunities. However, a standardized reporting informs format is essential, incorporating units, categories, and scoring metrics consistent with international standards to enable comparisons and data aggregation. This smooths the critical process of report validation and verification by external third parties, such as governments or research organizations, which reinforces trust in the business's practices. Reports must also strive for accuracy, addressing potential biases in reported figures, such as over- or under-estimations of metrics. By focusing on streamlined and reliable data, reports can effectively meet the decision-making needs of stakeholders with minimal effort, cost, or inefficiency.[21] Furthermore, consistent reporting methodologies at a regular frequency, such as annual or biannual updates, enhance the reliability of reporting systems.[22]

Moreover, as a guiding principle, a company's annual report should include only material information. Financial material information refers to data that investors require to make informed decisions about the company. In the context of sustainability, it pertains to ESG issues that significantly impact, or have the potential to impact, the organization's strategy, governance, performance, or stakeholders. The materiality of ESG issues varies based on the organization's stakeholders and its specific industry sector.

[20] Tirpak, D., Ballesteros, A., Stasio, K., & McGray, H. (2010). Guidelines for Reporting Information on Public Climate Finance. World Resources Institute. Availabe at https://www.wri.org/research/guidelines-reporting-information-public-climate-finance
[21] Singh, N., Finnegan, J., & Levin, K. (n.d.). MRV 101: Understanding Measurement, Reporting, and Verification of Climate Change Mitigation. World Resources Institute. Available at https://www.wri.org/research/mrv-101-understanding-measurement-reporting-and-verification-climate-change-mitigation
[22] Singh, N., Finnegan, J., & Levin, K. (n.d.). MRV 101: Understanding Measurement, Reporting, and Verification of Climate Change Mitigation. World Resources Institute. Available at https://www.wri.org/research/mrv-101-understanding-measurement-reporting-and-verification-climate-change-mitigation

While materiality refers to the process of identifying and prioritizing impacts, whether positive or negative, that are significant to an organization and its stakeholders, for ESG reporting considerations the double materiality perspective is recommended. Under the double materiality perspective, organizations must consider inside-out impacts (the entity's influence on external factors such as environmental sustainability and societal well-being) as well as outside-in impacts (the influence of external factors, such as climate risks, regulatory changes, and social dynamics, on the organization's performance and governance). This ensures a comprehensive understanding of ESG impacts, allowing organizations to address the most relevant issues effectively while enhancing transparency and accountability.

Incorporating double materiality into ESG analysis enhances the ability to capture and visualize both internal and external impacts of business operations. This dual perspective ensures a holistic, well-rounded approach to understanding ESG performance, facilitating more informed decision-making, and aligning strategies with stakeholder expectations and sustainability goals.

According to ISO IWA 48, the inclusion of comprehensive information, robust data collection methods, and efficient record-keeping practices are essential to ensure transparency, interpretability, reproducibility, repeatability, and interoperability of results.[23] These elements are critical to reinforcing an organization's environmental credibility and reliability.

Standardized quantitative and qualitative data are also pivotal to creating measurable Key Performance Indicators (KPIs). High-quality data and information generated against KPIs allow organizations to assess their current performance, set goals, make data-driven decisions, attract investment, manage risks and opportunities, and meet compliance requirements. By applying the principle of double materiality, organizations can prioritize ESG indicators that have the most significant impact, ensuring a focused and strategic approach to sustainability performance and risk management.

[23] ISO, "IWA 48:2024 Framework for implementing environmental, social and governance (ESG) principles", (Edition 1, 2024). Available at www.iso.org/standard/89240.html.

Reporting practices and information processing are closely linked, as the availability of usable ESG data depends on both the quality and completeness of the information reported by organizations. Figure 2 summarizes key steps to achieve best practices for ESG reporting.[24]

Figure 2 Best practices for ESG reporting

Source: ESCAP based on GRI

[24] GRI - GRI Standards English Language. (n.d.). Available at https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/
[25] Neal, T. (2022, August 12). Transforming Mongolia into a Digital Nation: Interview with Ministry of Digital Development. The Fast Mode. Available at https://www.thefastmode.com/expert-opinion/26849-transforming-mongolia-into-a-digital-nationinterview-with-ministry-of-digital-development
[26] Almadadha, R. (2024). Blockchain Technology in Financial Accounting: Enhancing Transparency, Security, and ESG Reporting. Blockchains, 2(3), 312-333. Available at https://doi.org/10.3390/blockchains2030015

To effectively manage vast quantities of collected data, systematic automation, the use of technology and digital tools should be implemented to streamline data processing. While automation tools require sufficient infrastructure and literacy to effectively use them, Mongolia has expressed that it is dedicated to fast-tracking the digital transformation and bridging the digital divide gaps across the country.[25] The reporting portal being developed by the MSFA, Financial Regulatory Commission (FRC) and the Mongolian Stock Exchange (MSE) if a significant first step towards digitalization of the data collection process.

Moving forward investments in capacity building and infrastructure should evaluate the implementation of artificial intelligence (AI) and machine learning (ML) technologies such as natural language processing (NLP) models that allow for the responsible processing authority to efficiently manage large datasets from incoming ESG reports and seamlessly integrate them into risk assessment models for trend analysis, which guides policymaking.

In the long term, decentralized blockchain technology could further enhance data transparency and integrity across the financial system, by ensuring that verified ESG information is securely stored and accessible to relevant domestic and international stakeholders. Additionally, blockchain can serve as a trusted, centralized database for storing ESG data.[26]

Photo Credit : AdobeStock_105726356

III: ESG RISK-BASED SUPERVISION

The Basel Accords are a set of international banking regulations developed to strengthen the regulation, supervision, and risk management of banks worldwide. The framework is structured around three main pillars, each addressing different aspects of banking regulation and stability. Pillar 1: Minimum Capital Requirements, Pillar 2: Supervisory Review Process and Pillar 3: Market Discipline.[27] Given their relevance for sustainability factors to traditional categories of risk, these factors have been progressively incorporated across the micro prudential frameworks at the global (BCBS, Network for Greening the Financial System), regional (European Union) and individual jurisdiction levels requiring that banks include ESG considerations in their policies. This general trend has several features.

1. First, policymakers rely on increasing risk-related disclosure requirements (market discipline under Pillar 3).
2. Second, policymakers are so far reluctant to develop dedicated prudential treatment of climate and environmental (C&E) risks under Pillar 1.
3. Third, the inclusion of C&E, and sustainability risks more broadly, in the prudential framework relies largely on the broad scope of discretion for supervisors under Pillar 2.
4. Fourth, the work within the Basel Committee or the Network for Greening the Financial System (NGFS) focus primarily on climate change-related risks, the European Union (EU) CRR/CRD being a notable exception.[28]

The Basel Committee on Banking Supervision (BCBS) also revised the Basel Core Principles for Effective Banking Supervision (BCP)[29] in 2024. The Core Principles establish 29 principles that are needed for a supervisory system to be effective. Several core principles provide guidance on integration of climate and governance risks. (Core Principles 8, 9, 10, 14, 15, 25, and 26)[30]

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[27] Basel Committee on Banking Supervision reforms - Basel III Available at https://www.bis.org/bcbs/basel3/b3summarytable.pdf.
[28] Central bank supervisory role: micro-prudential supervision and regulation of ESG risks, Dr Agnieszka Smoleńska, Version: 3 December 2023
[29] The Core Principles for effective banking supervision (Core Principles) are the de facto minimum standard for sound prudential regulation and supervision of banks and banking systems.
[30] Basel Committee on Banking Supervision. (2024, April). Core principles for effective banking supervision. Bank for International Settlements. Available at https://www.bis.org/bcbs/publ/d573.pdf

Although ESG risks are likely to fully materialize over the long-term, action is needed now to identify what institutions and supervisors' responses should be and to progressively start implementing the necessary steps.[31] While the early focus has been on climate related risks, regulators are increasingly investigating the incorporation of broader ESG Risks as part of their supervision strategy. The European Banking Authority (EBA) released its final report on the guidelines on the management of environmental, social and governance (ESG) risks in 2025 and plans to gradually implement the supervisory review considering the development of the related methodologies for the qualitative and quantitative assessment of ESG risks.[32]

While a universal definition of an ESG risk-based supervision framework has not been developed, based on the EBA and supervision frameworks for central banks and regulators, it can be understood as framework that:

- Integrates environmental, social, and governance risks into financial oversight
- prioritizing institutions based on their exposure to ESG-related vulnerabilities

This approach balances proactive risk mitigation under the Pillar 3 framework with long-term financial stability, as outlined in global standards and global regulatory guidance.

In Mongolia, through the decree of the governor of Bank of Mongolia, a methodology for assessment and management of ESG risks of banks was approved in 2023.[33] The methodology aims to improve the operations of banks and to strengthen the environmental, social and governance risk management system (ESGRMS). The document also sets out expectations of performing an environmental, social and governance risk assessment (ESGRA). The methodology specifies expectations from the banks for their ESG risk management practices, provides an exclusion list, a list of projects for which detailed assessments are required and a list of ESG factors to consider within the risk assessment. Additional assessment requirements are listed for the mining, agriculture, construction and processing sectors (high risk sectors). An enhanced assessment of the project (with site visits as per the Law on Environmental Impact Assessment) is required if the following conditions are met simultaneously in the ESGRA process:

- Loan/investment size is MNT 1 billion or more in terms of systemic banks or MNT 500 million or more for other banks.
- Project operates in a high-risk sector.
- Project is a high risk as determined by ESGRA.

[31] European Banking Authority. (2021, June). ESG risks management and supervision [Factsheet]. Available at https://www.eba.europa.eu/sites/default/files/document_library/News%20and%20Press/Communication%20materials/Factsheets/1015657/ESG%20risk%20Factsheet.pdf

[32] European Banking Authority. (2021, June). Report on management and supervision of ESG risks for credit institutions and investment firms (EBA/REP/2021/18). Available at https://www.eba.europa.eu/sites/default/files/document_library/Publications/Reports/2021/1015656/EBA%20Report%20on%20ESG%20risks%20management%20and%20supervision.pdf

[33] Annex to Decree No. A-31, dated 10 February, 2023, of Governor of the Bank of Mongolia

The decree also requires banks to prepare a risk assessment list as part of the documentation submitted to the Credit Committee of the bank. Banks are required to report semi-annually their ESGRM policy implementation to the Supervision Department of the Bank of Mongolia. This template for reporting includes:

- A sectoral categorization of the environmental and social risk within the total business loan portfolio of a bank.
- Total loans issued during the reporting period with outstanding balance
- ESG risk assessment of the total business loan portfolio in the reporting period (over MNT 50 million, > 12 months) along with a risk categorization (Low, Medium, High)
- Information on risk mitigation actions, with number, value and brief explanation on "refused loans or loans refused for continued financing"
- Percentage of non-performing loans in the total business loan portfolio issued based on ESGRA

However, the Bank of Mongolia has faced several challenges in the implementation of these guidelines. In the absence of a legal reporting mandate for the banks, the current ESG reporting requirements remain voluntary, and banks have not consistently reported their ESG assessments directly to the Bank of Mongolia. Additionally, listed banks have begun submitting ESG reports to stock exchange, based on the ESG and Sustainability Reporting Guidance for Mongolian Companies (2022).[34]

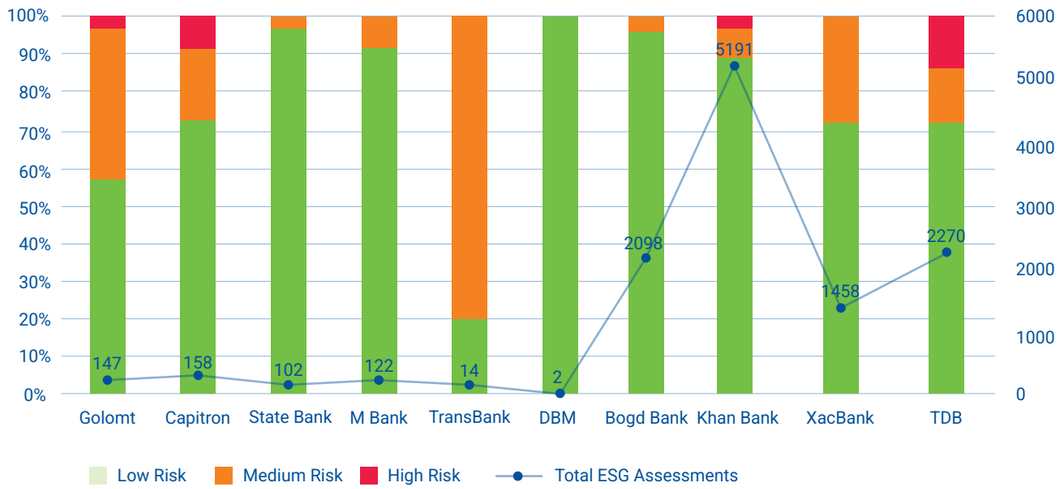
While these reports are accessible to the Bank of Mongolia via the stock exchange, requiring banks to report similar information in different templates can create an unnecessary regulatory burden. Timely data collection has also been difficult due to the lack of formal reporting requirements or incentives.

To date, banks have submitted ESG assessment reports to the MSFA, which is working to analyze the data. Eight banks submitted the ESG reports in 2023 H1, H2, 2024 H1, while ten banks submitted the reports in H2 2024. These reports are submitted as word or pdf documents, requiring manual compilation and processing, which is a cumbersome and time-consuming task. The Bank of Mongolia should consider moving toward an online reporting platform or as an interim step, requesting reports to include an excel based annex to facilitate a more efficient data analysis process.

[34] ESG and Sustainability Reporting Guidance for Mongolian Companies | United Nations Development Programme Available at https://www.undp.org/mongolia/publications/esg-and-sustainability-reporting-guidance-mongolian-companies.

The following figure highlights the key findings which emerged from the analysis of data received during the H2 2024 reporting period.

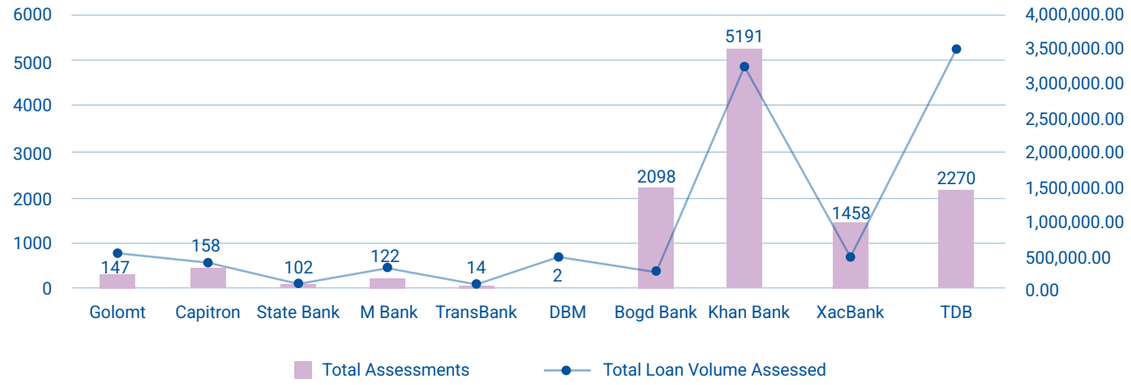
Figure 3 ESG risk assessments reported by banks in H2 2024



Source: ESCAP based on data compiled by MSFA

Banks classify loans assessed by sector as well as based on their risk levels. Banks also report the total number of assessments made and the total volume of loans assessed for ESG risks. It can be seen from the figure above that the total number of assessments by banks differ between banks, as does the distribution of risk types. Khan Bank reported the highest number of ESG assessments while Development Bank of Mongolia (DBM) reported just 2. The significant variation in the number of loans assessed and the total loan volumes for which the assessment is done could be due to several factors like the size of loan portfolios for sectors that are perceived to have material ESG risks, the use of different methodology for loan ESG risk assessments or capacity of banks to conduct such assessments. **Thus, the comparison among banks becomes challenging.**

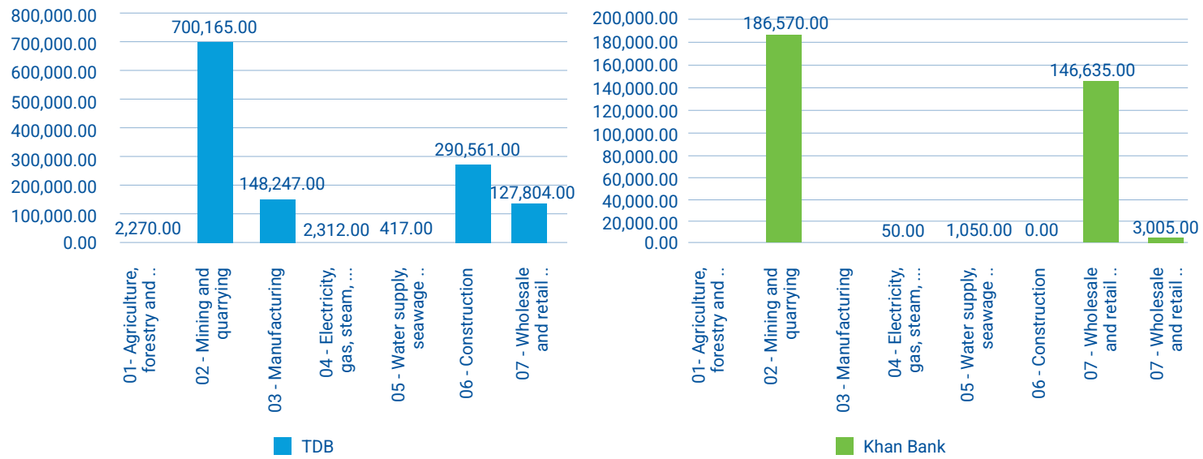
Figure 4 Loan volume assessed (MNT million secondary axis) vs number of assessments (primary axis)



Source: ESCAP based on data compiled by MSFA

Figure 4 further highlights the heterogeneity across banks by showing the relationship between the total number of ESG assessments reported and the corresponding loan volumes assessed across banks. For example, Khan Bank reports the highest number of ESG assessments (5,191), but not the largest loan volume, which suggests either a lower average loan sizes or that the bank is conducting ESG assessments at a relatively granular level. While for most other banks the number of assessments is significantly lower. The Trade and Development Bank (TDB) reports a much smaller number of ESG assessments (2,270), yet a higher total loan volume assessed indicating a different approach or definition of what constitutes an assessment, and/or large loan volumes. **These differences in reporting approaches make it difficult to conduct meaningful comparisons across banks.** The results highlight the **need for greater harmonization of ESG assessment methodologies, definitions, and reporting practices in the banking sector.**

Figure 5 Sectoral volumes of loans classified as "High Risk" under ESG assessments H2 2024 (MNT)

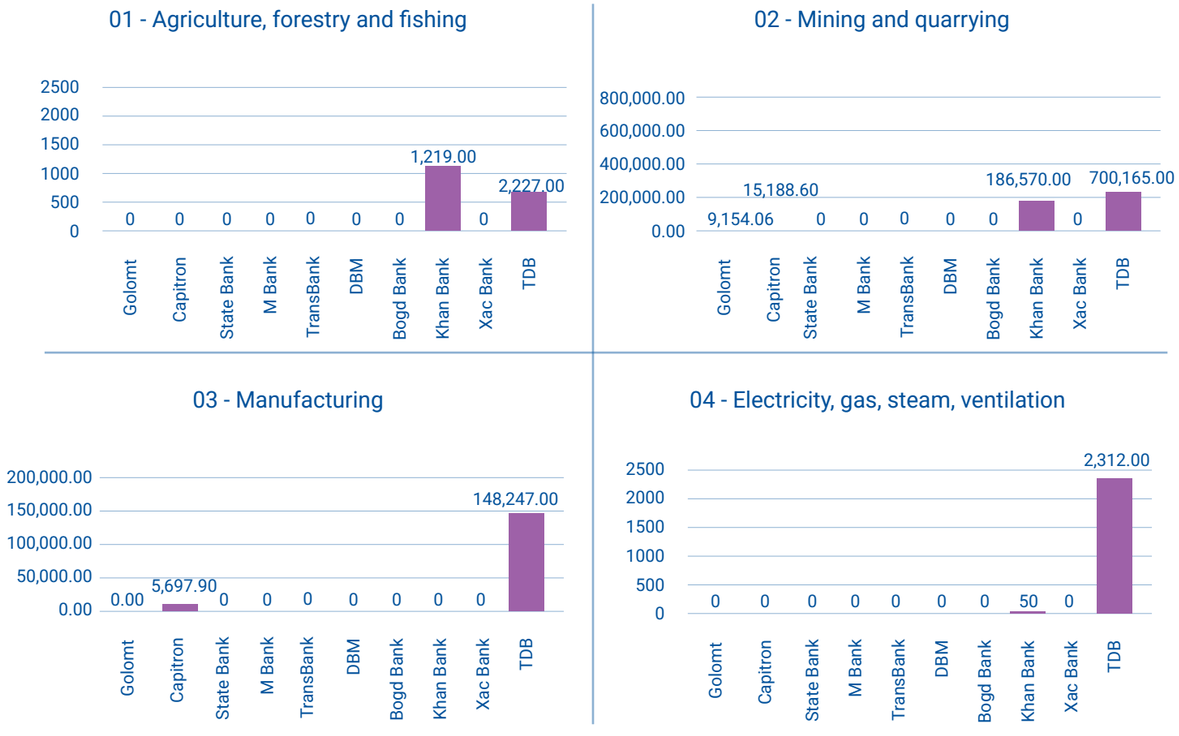


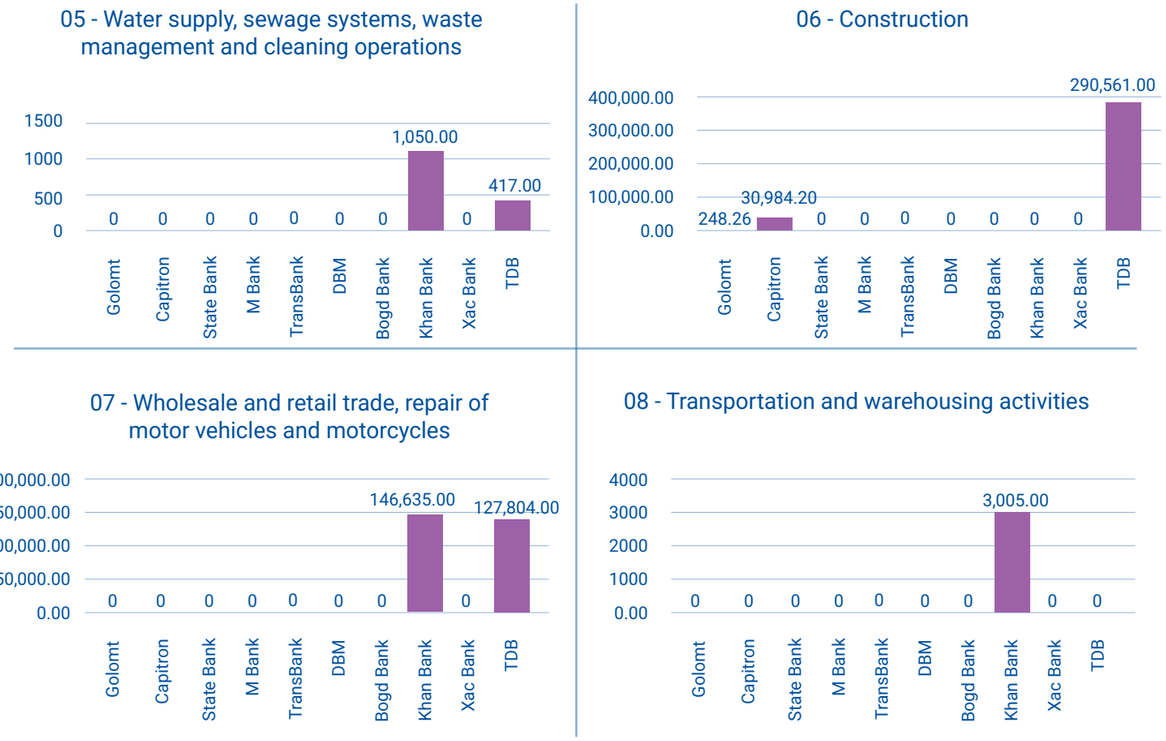
Source: ESCAP based on data compiled by MSFA

Figure 5 highlights the sectoral composition of loans assessed by Khan Bank and TDB as "high risk". For TDB, the largest volume of high-risk loans is in the mining and quarrying sector (MNT 700.2 billion), followed by the construction (MNT 290.6 billion) and wholesale and retail (MNT 127.8 billion). These sectors are likely assessed as high risk due to transition and operational vulnerabilities, such as energy intensity, supply chain fragility, and exposure to environmental compliance costs. Khan Bank classifies its highest ESG risk exposure in the mining and extractive industries (MNT 186.6 billion), followed by transportation and trade (MNT 146.6 billion). Interestingly, Khan Bank reports zero high-risk loans in construction, suggesting either lower exposure or a different risk evaluation approach. Notably, electricity, gas, steam, and air conditioning supply registers some high-risk exposure for both banks (TDB: MNT 2.3 billion; Khan: MNT 0.05 billion), likely due to energy transition risks.

The differences in sectoral classifications highlight varying portfolio structures and risk assessment methodologies between the two banks. While TDB's risks are more concentrated in commercial sectors like construction and retail, Khan Bank flags extractives and transport—both carbon-intensive sectors—as its key ESG risk areas. This divergence underscores the importance of harmonizing ESG risk assessment approaches to ensure consistency, comparability, and effective supervision across the financial system.

Figure 6 Loans classified as high risk under ESG assessments by bank by sector H2 2024 (MNT)





Source: ESCAP based on data compiled by MSFA

Figure 6 looks at the sectoral distribution of loans classified as "high risk" by the two banks with largest volumes assessed, Khan Bank and TDB. Mining and quarrying remain the common sector with highest "high-risk loans" volume for both banks. While other significant exposure for Khan Bank comes from Wholesale and Retail sector, for TDB exposures are seen in Construction and Manufacturing sector.

Khan Bank and TBD have the highest volumes of loans classified as high risk in the agriculture sector. However, the volume of loans is small in comparison to manufacturing, wholesale and mining sectors. Similarly, for water supply and waste, electricity, gas, steam, and transportation sector the volumes are very low. Highest volumes assessed as high risk are seen in Mining (TDB), followed by Construction (TDB) and Manufacturing (TDB). While Khan Bank has the highest high risk loan volume in the wholesale and retail trade sector.

Regular reporting by banks in a standardized digital format would be essential to strengthen ESG risk management in the Mongolian banking sector. The current fragmented approach to ESG reporting faces several challenges and can lead to inefficiencies in analysis. While progress has been made with several banks submitting ESG assessments aligned with the template, there still remains heterogeneity across banks in their assessment methodologies and their respective volume and number of assessments. Manual compilation from PDF and Word files continues to delay meaningful insights. A shift to a centralized online reporting platform or, at a

minimum, the submission of structured data (e.g., in Excel) would allow the Bank of Mongolia and relevant authorities to more effectively monitor trends, identify sectoral risks, and benchmark bank performance. Continuous monitoring enabled by digital reporting will also support the early identification of environmental, social, and governance risks, helping to enhance financial stability, support sustainable lending practices, and ensure alignment with national green finance objectives.

Regular and standardized ESG reporting is not just a compliance exercise it is a strategic tool that can empower banks, regulators, and stakeholders with the data needed to guide Mongolia's sustainable economic transition. There is also a need to streamline the collection of information on ESG risks. As seen above several Banks have started to develop ESG reports for the Mongolian Stock exchange. From 2025, all tier 1 listed banks will need to mandatorily develop ESG reports. Banks have also begun compiling ESG risk assessment data based on Bank of Mongolia's template. At the same time, several complimentary key steps have also been taken by the Bank of Mongolia to integrate sustainability considerations in their supervisory framework as part of greening the central bank agenda. These include:

- 10% Green loans target and green loan data reporting for banks (2022)
- Bottom-Up Climate Scenario Analysis with seven banks including five systemically important banks (2024-25)
- Development of guidelines on climate related disclosures for banks (2025)

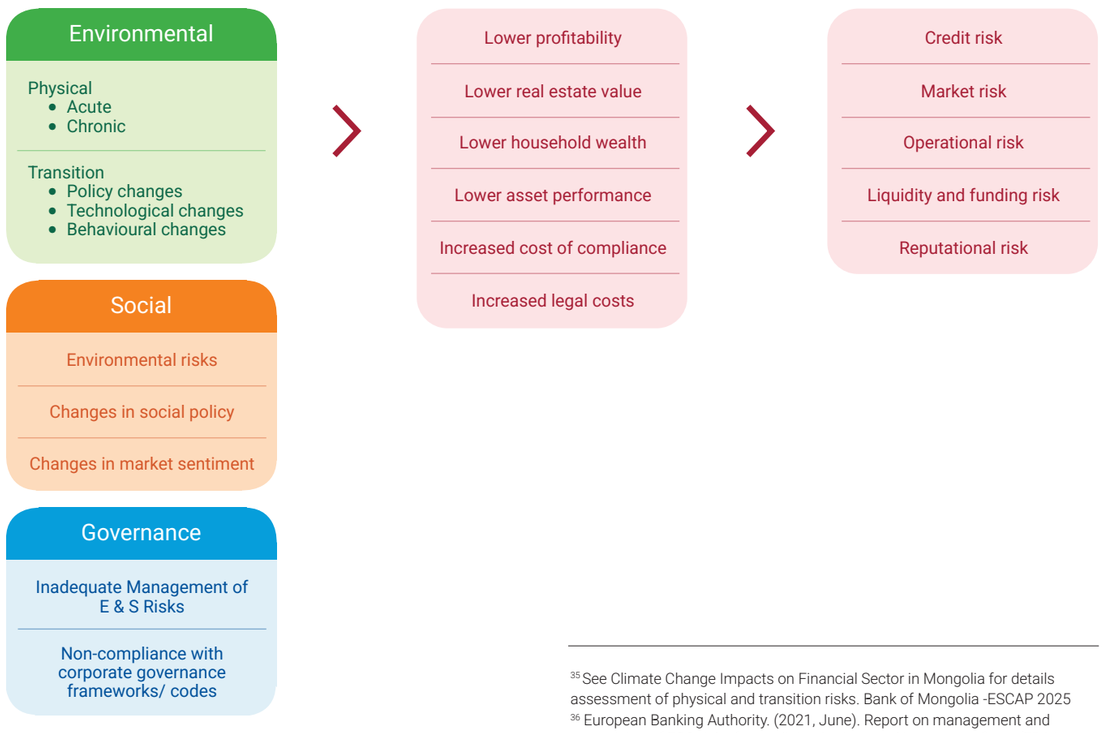
These initiatives will generate significant data especially related to environmental risks which are a part of ESG considerations. What is needed is to create a comprehensive risk-based supervision framework that integrates the information already available under different frameworks. This information must be then utilized to identify, assess and manage the ESG risks in banks. Once sufficient data is available for analysis, informed regulations can be developed to implement additional reporting for high-risk sectors or based on the loan amount classification.

The following sub-section presents a three-step process for a comprehensive ESG Risk based supervision framework for the Bank of Mongolia. Beginning with Risk Identification principles, the section highlights how ESG risk drivers can translate into financial risks. Risk assessment presents various assessment methods and tools and discusses their utility in assessing and evaluating environmental, social or governance risks. Some of these assessment methods have already been piloted by the Bank of Mongolia. The final subsection discusses how the supervisor can manage these risks after identification and assessment has been done and presents a comprehensive framework to capture relevant ESG information without the need for separate stand-alone reporting.

III.1 Risk identification

The Mongolian economy lacks diversification and is dependent highly on coal. The key sectors for the economy are highly emitting while most of the economic activity and population are concentrated in the capital. At the same time, the unique geography of Mongolia as a landlocked country with vast arid and semi-arid grasslands, makes it highly vulnerable to physical risks like dzuds, floods, storms and droughts. Climate change risks and impact on Mongolia's financial sector examine the physical and transition risks to the Mongolian financial sector in detail and how they can materialize into financial risks. At the same time chronic physical impacts of climate change like migration, air pollution and desertification can also lead to social risks.[35] Figure 7 highlights how ESG risk drivers through transmission channels can materialize as financial risks for the banks.

Figure 7 ESG risk drivers, transmission channels and financial risk categories[36]



Source: European Banking Authority. (2021, June)

[35] See Climate Change Impacts on Financial Sector in Mongolia for details assessment of physical and transition risks. Bank of Mongolia -ESCAP 2025
[36] European Banking Authority. (2021, June). Report on management and supervision of ESG risks for credit institutions and investment firms (EBA/REP/2021/18). Available at https://www.eba.europa.eu/sites/default/files/document_library/Publications/Reports/2021/1015656/EBA%20Report%20on%20ESG%20risks%20management%20and%20supervision.pdf

Identification implies classifying assets according to their ESG characteristics in order to support the identification of ESG risks based on specific qualitative and quantitative indicators. For instance, geographical classification can help identify exposures of assets to physical risks like floods, droughts and dzuds, while sectoral classification can enhance the understanding of exposures to transition risks for instance in the form of regulatory changes and technological progress affecting those specific sectors.[37]

To identify risks ex-ante central banks and regulators rely on the information reported by the banks under their jurisdiction as part of their ESG reports and climate related disclosures. While climate related disclosures (IFRS S2) can provide detailed information on environmental and climate risk factors (as well as organizations approach to mitigate them), robust ESG reports with key qualitative and quantitative indicators can support the identification of broader ESG risks. Section IV of this report discusses the indicators currently used by organizations as part of their ESG reporting to the Mongolian Stock Exchange while highlighting additional indicators that can improve the identification of potential ESG risks.

The use of ESG indicators can also be supported by the development of taxonomies and standards/principles. The Mongolian SDG taxonomy can provide a starting point for the uniform identification and classification of economic activities that are green, social, sustainable or transition enabling. The key indicators, technical screening criteria and verification and reporting requirements in the taxonomy can also support the sustainability credentials of assets, loans and investments.

Qualitative information is equally important during the identification and prioritization of ESG risks. Qualitative indicators can also help analyze the evolution of these risks over time. When assessing the relevance of ESG factors for a given exposure, institutions and supervisors need to take into account not just the conditions at the current moment in time but also information on future development.

[37] European Banking Authority. (2021, June). Report on management and supervision of ESG risks for credit institutions and investment firms (EBA/REP/2021/18). Available at https://www.eba.europa.eu/sites/default/files/document_library/Publications/Reports/2021/1015656/EBA%20Report%20on%20ESG%20risks%20management%20and%20supervision.pdf

III.2 Risk assessment

Risk assessment involves analyzing the probability of risks occurring and evaluating their potential impact on the organization, stakeholders, and broader systems across the short, medium, and long term. According to IFRS S1/S2 materiality assessments play a key role in determining the significance, magnitude, and relevance of identified risks by considering both financial and impact materiality. Aligning risks with the organization's risk appetite and tolerance ensures that thresholds triggering interventions are clearly defined and actionable. Throughout this process, engaging stakeholders and integrating diverse perspectives enhances the credibility and accuracy of the evaluation. Additionally, adopting a systems-thinking approach accounts for interconnected and cascading effects of risks, offering a more holistic view of their impacts on value chains, operations, and markets.

For climate-related risks, scenario analysis through climate-economy models is useful to evaluate impacts of identified risks. These models enable organizations to assess transition risks such as carbon pricing, emissions regulations, energy efficiency incentives, and physical risks such as the increasing severity and frequency of extreme weather events or natural resource scarcity. By incorporating both types of risks, scenario analysis provides insights into potential disruptions to operations, supply chains, and market performance.

Probability and impact modeling helps to evaluate the potential impacts of transition and physical risks, and provides evidence on short-, medium-, or long-term impacts of policy implementation on economic systems. Models can be structured to assess sectors, supply chains, or operations of the economy and for individual companies. Additional policies such as emissions regulations, carbon pricing, market transitions, and energy efficient incentives can be evaluated to account for transition risks. Similarly, data on severity and frequency of extreme weather events or the scarcity of natural resources can be included to account for physical risks on supply chains.

For a further comprehensive assessment, scenario analysis can be applied across multiple levels, including to gauge for sectoral, operational, and financial impacts. This can help assess vulnerabilities within specific industries, or assess dependencies on high-risk geographies and critical resources, or examine the effects of cash flows, assets valuations and capital valuations. Combining quantitative modeling with qualitative assessments and stakeholder engagement equips organizations with the insights needed to prioritize risks effectively and allocate resources for risk mitigation. This integrated approach enhances the organization's resilience, enabling it to adapt to evolving environmental, social, and governance challenges.

Several methodologies have been developed to assess ESG risks. However, most to date focus primarily on climate-related risks, such as climate stress testing and portfolio alignment with Paris Agreement goals. While holistic ESG ratings, provided by specialized credit rating agencies, often come masked with methodologies which are not fully transparent. The following table provides a non-exhaustive list of methodologies available to assess ESG risks.

[38] Author's summary drawn from European Banking Authority. (2021, June). Report on management and supervision of ESG risks for credit institutions and investment firms (EBA/REP/2021/18).
Available at https://www.eba.europa.eu/sites/default/files/document_library/Publications/Reports/2021/1015656/EBA%20Report%20on%20ESG%20risks%20management%20and%20supervision.pdf

Table 1 ESG risk assessment methodologies[38]

Method Type	Objective	Assessment Tools	Particularities	Scope
Portfolio alignment method	Investors and supervisors understand how far portfolios are aligned with globally agreed (climate) targets.	Paris Agreement Capital Transition Assessment (PACTA) tool from 2 Degrees Investing Initiative (2DII)	The tool combines institution level portfolio information on corporate exposures, a database on the technology mix and production plans of individual companies, and technology mix scenarios developed by the International Energy Agency (IEA) in order to assess an institution's alignment with the Paris Agreement Targets (bringing the rise in temperature to well below 2 degrees)	E (Climate)
		UNEP FI Principles for Responsible Banking	Align banks' business strategies with the goals expressed in the SDGs and the Paris Agreement.	ESG
		Partnership for Carbon Accounting Financials (PCAF)	Measure and disclose institutions' direct and indirect emissions (financed emissions), based on a set of overarching accounting principles and covering nine different asset classes, from sovereign bonds to corporate and small and medium-sized enterprises (SME) loan portfolios for various sectors.	E (Climate)
		Science-Based Targets initiative (SBTi) Finance Tool	Helps set and monitor science-based targets to align portfolios with global climate goals. Methodologies to measure emissions across investment and lending activities and ensures alignment temperature targets. Can help assess portfolio decarbonization progress.	E (Climate)
Risk framework method	Focuses on the sensitivity of portfolios and the impact climate change has on the real risk of exposures. Managerial actions would reflect the level of measured sensitivity or direct risk of losses considering the current level (or future scenario level) of environmental factors (or climate factors, more specifically).	Climate Stress Tests	Tests banks financial risk exposures based on probable scenario pathways for physical risks and transition risks. Financial institutions can quantify risks under specific scenarios. NGFS, IEA, IPCC are some of the institutions that have published scenarios. Bank of Mongolia Piloted its first bottom-up sceanrio analysis exercise in 2024-25.	E and S (Primarily Climate)
		Climate Sensitivity Analysis	Integrates climate risk directly into financial risk indicators by stressing certain inputs, based on classifying exposures according to their positive or negative climate contributions (i.e. classifying them into "green" or "environmentally harmful" exposures). Less robust than a full stress test.	E and S (Primarily Climate)
		ESG Risk Modeling & Credit Risk Integration Tools	These tools integrate ESG factors into financial risk assessment models. Several tools have been developed by rating institutions like the Moody's ESG and Climate Risk Analytics (Moody's), MSCI ESG Ratings & Climate VaR (MSCI), ISS ESG Climate Impact Assessment (ISS ESG)	ESG
Exposure Method	Institutions can apply directly to the assessment of individual counterparties and individual exposures, even in isolation. The principle is to directly evaluate the performance of an exposure in terms of its ESG attributes.	ESG Ratings by Specialized Rating Agencies	MSCI ESG Ratings, Sustainalytics ESG Risk Ratings, S&P Global ESG Scores, Moody's ESG Ratings, ISS ESG Corporate Rating, CDP Scores (Climate, Water, Forests), Bloomberg ESG Disclosure Scores.	ESG
		In-house ESG scoring models	These models are developed in-house by institutions like banks, asset managers and data providers.	ESG

III.3 Risk management

Managing risks requires selecting appropriate treatment strategies that align with the organization's risk appetite and priorities, such as accepting, mitigating, adapting to, transferring, or avoiding risks. Implementation involves creating specific tools, such as policies, controls, and processes, to address and monitor identified risks effectively. Adequate resources, leadership support, and clear governance structures are essential for managing risks safely and proactively. Systematic monitoring and periodic reviews ensure risks remain within acceptable thresholds, and deviations are addressed promptly. Continuous improvement, driven by lessons learned and evolving ESG developments, strengthens resilience and adaptability to future risks.

A robust risk management system also involves continuous feedback loops between risk identification, assessment, monitoring, and strategic adaptation. Risk management strategies should also be subject to the principle of proportionality i.e. they should be applied in ways that are appropriate, taking into account the organization's size, business models, risk profiles and complexity of activities. Regulators must also ensure that the risk management measures by the organization are proportional to their risk exposures and risk profiles. For instance, smaller institutions are not immune to ESG risks and could in some cases be even more exposed to them, for instance, if they are particularly concentrated in a vulnerable sector or geography, or if they lack the resources and expertise needed to implement ESG risk management frameworks. Factors such as types of clients, products and portfolios, business areas in which the institution is most active, sectoral exposures and level of concentration risk (in sectors or geographies) are important criteria to consider when determining institutions' vulnerability to ESG risks.[39]

[39] European Banking Authority. (2021, June). Report on management and supervision of ESG risks for credit institutions and investment firms (EBA/REP/2021/18). Available at https://www.eba.europa.eu/sites/default/files/document_library/Publications/Reports/2021/1015656/EBA%20Report%20on%20ESG%20risks%20management%20and%20supervision.pdf

Evaluation of supervised entities' current business models, business strategies can provide insights on the risk management practices within the supervised institutions. Their analysis can provide insights into how supervised entities aim to mitigate ESG risks and ensure that they do not materialize as financial risks. Review of future strategies would help ensure and monitor that the supervised entities are proactively prepared to incorporate a changing business environment and have strategic plans for long-term resilience. This would also involve developing an understanding of and monitoring how ESG factors can affect macroeconomic conditions, as well as relevant sectoral business environments, for instance through decreases in output, changes in customer preferences or shifts in technology, and how this could in turn have negative financial implications for the institutions. Mitigation strategies therefore need to be positioned across short-, medium- and long-term time horizons. Evaluating internal governance mechanisms and internal control frameworks at the entity level can ensure that banks have the necessary personnel and systems required to effectively integrate and maintain the ESG risk management systems.

To develop a robust ESG risk-based supervision framework, the Bank of Mongolia is in a strong position to leverage existing regulatory frameworks, in addition to the collection and analysis of ESG data, the central bank can also develop strategies for off-site and on-site supervision. Cognizant of the fact that many processes are in the initial development stage and several gaps remain in capacities (of both regulator and the banks), data, external monitoring and verification processes, the application of the ESG risk-based supervision framework can be implemented with a phased approach. The following table proposes the potential steps towards the development of a comprehensive risk-based supervision framework for supervised entities.

Table 2 Risk based supervision framework

Supervision Category	Supervision principle	Offsite Supervision	On site Supervision	Category Type	Bank of Mongolia's Evaluation
Alignment with national goals	Is the strategy aligned with targets in NDCs, national regulations, upcoming policy?	ESG report, sustainability strategy documents, climate related disclosures	Audit interviews with CEO, sustainability committee	Business strategy and governance assessment	Qualitative
Alignment with international frameworks	Does the sustainability strategy align with SDGs, paris agreement?	ESG report, sustainability strategy documents, climate related disclosures	Audit interviews with CEO, sustainability committee	Business strategy and governance assessment	Qualitative
Engagements with clients	Does the strategy involve working with clients to improve data, reduce emissions, improve social indicators of the client?	ESG report, sustainability strategy documents, climate related disclosures	Audit interviews with CEO, sustainability committee	Business strategy and governance assessment	Qualitative
Net zero target	Does the strategy include a credible net zero target and credible transition plan?	ESG report, sustainability strategy documents, climate related disclosures	Audit interviews with CEO, sustainability committee	Business strategy and governance assessment	Qualitative
ESG product targets	Does the strategy include scaling up ESG product offerings? (green, social, sustainable)	Sustainability strategy documents	Audit interviews with CEO, sustainability committee	Business strategy and governance assessment	Qualitative, quantitative targets
Governance reporting in ESG report	Does the bank have a high score in governance reporting indicators?	ESG report, climate related disclosures	Audit interviews, internal policy documents, position description for key roles	Business strategy and governance assessment	All governance indicators in ESG report are satisfactory
Internal capacity building and training	Does the bank provide the necessary trainings to staff of ESG?	ESG report, climate related disclosures	Training records, assessments, training content evaluation	Business strategy and governance assessment	All governance indicators in ESG report are satisfactory
Credit risks	Does the bank assess potential credit risks with scenario analysis or stress testing?	Bank of Mongolia stress tests and scenario analysis results (bottom-up and top down)	Verification of methodologies and models used with the risk team and sustainability team	Assessment of risk to capital	Quantitative analysis: Expected Credit Loss (ECL), Loss Given Default (LGD) values
Market risks	Does the bank assess potential market risks with scenario analysis or stress testing?	Bank of Mongolia stress tests and scenario analysis Results (bottom-up and top Down)	Verification of methodologies and models used with the risk team and sustainability team	Assessment of risk to capital	Quantitative analysis: Expected Credit Loss (ECL), Loss Given Default (LGD) values
Liquidity risks	Does the bank assess potential liquidity risks with scenario analysis or stress testing?	Qualitative questionnaire	Verification of methodologies and models used with the risk team and sustainability team	Assessment of risk to capital	Qualitative analysis of survey response
Legal risks	Does the bank assess potential legal risks with scenario analysis or stress testing?	Qualitative questionnaire	Verification of methodologies and models used with the legal team and sustainability team	Assessment of risk to capital	Qualitative analysis of survey response
Operational risks	Does the bank assess potential operational risks with scenario analysis or stress testing?	Qualitative questionnaire	Verification of methodologies and models used with the operations team and sustainability team	Assessment of risk to capital	Qualitative analysis of survey response
Financed emissions	What are the key sectors of financed emissions for the bank? What are the banks transition plans?	Bank of Mongolia stress tests and scenario analysis results (bottom-up and top down), ESG reports, annual reports, climate related disclosures	Verification of methodology used by the bank. Third party verification	Assessment of environmental risks	Quantitative values of financed emissions, sectoral analysis
Social risks	Does the bank have adequate measures in place for social risks?	ESG report	Verification of employment records, lending data disaggregated by gender	Assessment of social risks	All social indicators in ESG report are satisfactory
Alignment with green lending target	How much of the portfolio is aligned with the current green lending target, what is the sub-sectoral composition of green loans?	ESG report, reports to Bank of Mongolia, annual report, climate related disclosures	Verification of loan origination documents, monitoring, reporting and verification (MRV) processes of the bank, classification process of the bank	Assessment of environmental risks	Quantitative share of green lending in portfolio
Other Environmental Risks	Banks business practices rated on all other environmental indicators in ESG reporting template	ESG report	On-Site audits of related documents, processes	Assessment of Environmental Risks	All other environmental indicators in ESG report are satisfactory

Source: ESCAP

In the phased approach, continuous refinement of these methodologies will be critical as data availability improves over time to identify and measure ESG risks effectively. As banks and their counterparties increasingly disclose relevant information under regulatory frameworks, data availability will improve significantly. Over the medium to long term, these advancements will enable the Bank of Mongolia to assess capacities and existing frameworks while undertaking actions for continuous improvement and evolution.

Analysis of the probability of risks occurring and evaluating their potential impact on the organization, stakeholders, and broader systems across the short, medium, and long term is critical to ensure financial system stability and robustness. Regulators can then assess the alignment of risk appetites and tolerances of the institutions under their jurisdiction and develop policies that in addition to risk management, also support the sustainable development goals. Analysis of ESG data of companies would support regulators in developing forward-looking policies and regulations.

- **Risk assessment and mitigation:** ESG data can help regulators identify systemic risks in the financial sector, environmental risks, and social inequalities. This allows for proactive risk mitigation strategies. Analysis of climate risk data for banks can help develop scenario analysis and stress tests.

- **Policy formulation and evaluation:** Analysis can provide evidence-based insights for creating or refining policies and regulatory frameworks to achieve sustainability goals like for instance Carbon Pricing Policies. Analysis of corporate emissions data can enable regulators to set fair and effective carbon prices.

- **Enabling targeted investments:** ESG data analysis can support regulators to direct interventions where they are most needed, such as vulnerable industries or regions. Analysis of key sectors can help align investments and develop project pipelines to attract green and sustainable finance.

- **Monitoring progress toward sustainability goals:** Continuous analysis will help ensure that national or regional ESG targets (e.g., net-zero goals) are being met. Incentives and disincentives can then be developed to steer progress towards desired goals.

- **Cross-Border collaboration and standardization:** ESG data analysis can help identify inconsistencies in ESG metrics across regions, helping align global regulatory efforts. Global and regional standardization will support greater transparency, interoperability and flow of investments.

RECOMMENDATIONS

1. **Strengthen regulatory frameworks and implementation:** ESG risk reporting to Bank of Mongolia by banks is voluntary due to the absence of a legal mandate, however banks do provide the information to different organizations like MSFA and MSE. Leverage existing templates and harmonize reporting requirements with other organizations to improve efficiency of regulatory reporting.

2. **Adopt a comprehensive ESG risk-based supervision framework:** Develop a three-step approach with risk identification, risk assessment and risk management. Integrate all ESG data sources into a centralized analysis framework to monitor risk and inform regulatory action.

3. **Phase implementation while building capacities:** Apply a phased approach to ESG supervision, given capacity and data limitations. Begin with qualitative assessments and gradually incorporate quantitative thresholds and mandatory reporting for high-risk sectors or large exposures. Invest in capacity for scenario analysis, data interpretation, and ESG supervision.

4. **Monitoring and continuous improvement:** Use ESG data analytics to continuously monitor and identify high-risk portfolios, assess the credibility of transition plans, and evaluate exposure concentrations by geography, sector, and client type. Over time, integrate these insights into macroprudential supervision to detect systemic vulnerabilities and guide regulatory responses.

CASE STUDY

ESG assessment in the real sector: Switching on the green economy

The European Commission's Switch Asia Programme-funded project, "Switching On the Green Economy," is being implemented by the organizations People in Need, the Mongolian Sustainable Finance Association, Caritas Czech Republic, and Development Solutions. Aligned with the recommendations of this report, the "Switching On the Green Economy" project seeks to pilot ESG assessment through an integrated approach that combines ESG criteria, digital verification, and sustainable financial products.

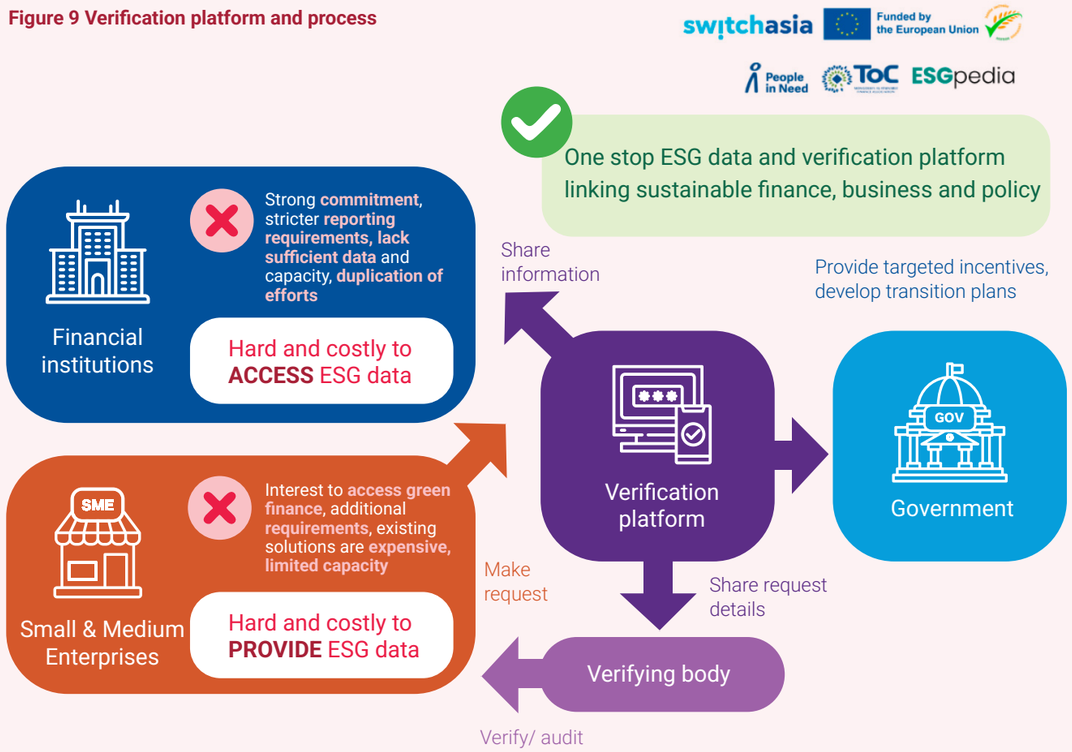
Figure 8 Development of ESG Assessment

Source: MSFA

As part of the initiative, MSFA has developed ESG assessment tools grounded in both international and national best practices. These tools serve as the foundation for a voluntary ESG impact maturity assessment, initially piloted in the agri-food sector and formally approved by the MSFA Board in December 2024. Beyond the assessment, the framework incorporates the ISO Plan-Do-Check-Act (PDCA) cycle to evaluate the maturity of each ESG pillar, emphasizing continuous improvement in both practice and performance.

The tool is designed to assess organizations of all sizes, from Micro, Small and Medium Enterprises (MSMEs) to large corporates, by measuring ESG maturity and implementation capacity. To streamline and scale the process, a dedicated digital platform is being developed in collaboration with ESGpedia. This platform will host the ESG assessment, integrate a standardized scoring methodology, and automatically generate evaluation reports with tailored recommendations. In parallel, MSFA is also working to integrate verification services and second-party opinion (SPO) capabilities into the system.

Figure 9 Verification platform and process



Source: MSFA

As part of the project, MSFA is also piloting an ESG-linked loan product, co-developed with its member financial institutions. This innovative financial instrument will facilitate transition finance, enabling MSMEs to progressively improve their ESG performance and overall sustainability impact.

Looking ahead, MSFA plans to extend the ESG assessment framework to additional sectors, with the textile industry identified as the next area of focus. To support long-term adoption and effectiveness, MSFA will also offer capacity-building services, including specialized training and tailored consulting support for organizations at different stages of ESG maturity.

Photo Credit : AdobeStock_332746859

IV: ESG REPORTING IN MONGOLIA

Banks in Mongolia are regulated by the Bank of Mongolia, however, as listed entities they are also subject to the regulations of the Mongolian Stock Exchange as well as the Financial Regulatory Commission. The ESG reporting requirements under the Corporate Governance Code (Renewed Version) ("Code") approved by the Financial Regulatory Commission (FRC) and the Regulation on Information for Public Disclosure by Issuer adopted by the Mongolian Stock Exchange (MSE) in 2022 requires listed companies to provide ESG reports to the MSE.[40] From 2025, the updated Disclosure and Transparency Rules of the MSE will make it mandatory for all Tier 1 listed companies to provide ESG reports while for classification II and III companies the reporting requirements remain voluntary.[41]

The ESG Disclosure & Sustainability Reporting Guidance document was developed in 2022 to improve disclosure and transparency of existing and future listed companies and issuers in Mongolia. The objectives of the reporting guidance document were to raise awareness among issuers and investors about the importance of sustainability reporting while guiding issuers through the evolving disclosure landscape. The guidance document provides simple steps for companies to prepare annual sustainability reports, suggests key ESG indicators for reporting, and offers practical resources to support the development of sustainability or integrated reports. Additionally, it helps align corporate reporting with national and international sustainability commitments, such as the National Development Plan and UN SDGs. Companies have used this guidance to voluntarily develop ESG reports for the Mongolian Stock Exchange.

In 2025, MSFA along with Mongolian Stock Exchange and the Financial Regulatory Commission plans to digitalize the ESG reporting framework through an online migration. The new updated framework also improves upon many elements of the first framework by consolidating binary questions to multiple choice questions that capture additional information and improve granularity of the data collected. Several indicators based on GRI standards have also been added. The new version will also incorporate a points-based scoring system based on each questions' response to provide a high-level overview of the ESG performance by section, with results available in a dashboard format. While reporting done under the current guidelines will be referred to as "the current framework" for the rest of this paper, the upcoming update will be referred to as the "updated framework". Table 3 shows the suggested core indicators for companies to disclose information on as per the current framework.

[40] PricewaterhouseCoopers. (n.d.). Environmental, social and corporate governance reporting. PwC. Available at https://www.pwc.com/mn/en/tax_alerts/tax_alert_en_07_2022.html
[41] Mongolian Stock Exchange. (2024, October 4). Disclosure and transparency rules of the Mongolian Stock Exchange (Revised edition) [Unofficial translation]. Available at https://mse.mn/uploads/images/laws/Disclosure%20and%20Transparency%20Rules%20(unofficial%20translation).pdf

The analysis and interpretation of ESG indicators requires a structured approach that aligns with global sustainability efforts, providing clarity, accountability, and actionable outcomes. Understanding the ESG framework is instrumental to building a foundation for critical evaluation of practices that characterize themselves as ESG-based. This promotes crucial principles of integrity, equity, and outcomes-focused decision-making, and supports an evidence-based analysis process.

A key concept in this evaluation is materiality, as outlined in IWA 48. Materiality refers to the process of identifying and prioritizing ESG impacts, whether positive or negative, that are significant to an organization and its stakeholders. It emphasizes a double materiality perspective, where organizations must consider inside-out impacts (the entity's influence on external factors such as environmental sustainability and societal well-being) and outside-in impacts (the influence of external factors, such as climate risks, regulatory changes, and social dynamics, on the organization's performance and governance). This ensures a comprehensive understanding of ESG impacts, allowing organizations to address the most relevant issues effectively while enhancing transparency and accountability. According to IWA 48, the inclusion of comprehensive information, robust data collection methods, and efficient record-keeping practices are essential to ensure transparency, interpretability, reproducibility, repeatability, and interoperability of results. These elements are critical to reinforcing an organization's environmental credibility and reliability.

Standardized quantitative and qualitative data are pivotal to creating measurable Key Performance Indicators (KPIs). High-quality data and information generated against KPIs allow organizations to assess their current performance, set goals, make data-driven decisions, attract investment, manage risks and opportunities, and meet compliance requirements. By applying the principle of materiality, organizations can prioritize ESG indicators that have the most significant impact, ensuring a focused and strategic approach to sustainability performance and risk management. The rest of this section analyses the current and updated frameworks and their indicators while highlighting the potential areas of improvement.

Both the current framework and the updated framework organize indicators under the sustainability management system, environmental, social, and governance areas with an additional sector specific section. The sector-specific indicators included are financial services, agriculture and food production, textiles, manufacturing, mining, and construction. For the purpose of this discussion paper, the analysis of the ESG reporting framework is limited to the financial sector. The following sub-section presents the analysis of each section and its indicators of the current template, acknowledging the improvements made in the updated framework, while highlighting additional areas of improvements.

[42] ESG and Sustainability Reporting Guidance for Mongolian Companies | United Nations Development Programme Available at https://www.undp.org/mongolia/publications/esg-and-sustainability-reporting-guidance-mongolian-companies.

Table 3 Indiactors under the current ESG disclosure & sustainability reporting guidance

TYPE	REF.	REPORTING TOPICS
Sustainability Management System Indicators	MS1	Senior management commitment
	MS2	Sustainability strategy/policy and procedures
	MS3	Governance structure
	MS4	Materiality assessment
	MS5	Organization capacity
	MS6	Monitoring
	MS7	Sustainability reporting and verification
	MS8	Memberships
Environmental Indicators	E1	Energy
	E2	GHG emissions
	E3	Climate change
	E4	Water
	E5	Waste
	E6	Biodiversity
Social Indicators	S1	Human capital development
	S2	Occupational, health and safety
	S3	Equal opportunity
	S4	Access & inclusion
	S5	Community engagement & disclosure
	S6	Supply chain management
Governance Indicators	G1	Corruption and ethics
	G2	Corporate governance
	G3	Compliance
	G4	Stakeholder engagement
Additional Sector Specific Indicators	FS	Financial services
	A	Agriculture & food production
	T	Textile
	MA	Manufacturing
	MI	Mining
	CO	Construction

Source: ESG and Sustainability Reporting Guidance for Mongolian Companies[42]

1. The Sustainability management system

A management system is a set of processes and practices to consistently implement a company's policies to meet its business objectives. The goal is to make sure that the companies have the appropriate policies and procedures in place and that people consistently follow them. The management system helps to assess and control risks and is the key to lasting improvement. A key feature is the idea of continual improvement – an ongoing process of reviewing, correcting and improving the systems.[43]

This section of the template highlights management commitment and policy adherence, aligning with principles of integrity, governance, and evidence-based practices. The framework emphasizes senior management's commitment, reflects governance maturity, and discusses materiality assessments. However, several elements can be enhanced to increase depth and interoperability.

In the current framework and template, the Sustainability Management System relied on binary indicators such as "Yes/No" responses, which, while simplifying reporting, failed to provide the necessary depth for assessing the true integration of sustainability within organizations. Best practices, such as those outlined by the GRI Standards, emphasize the need for comprehensive metrics that go beyond binary responses to capture the full scope of sustainability efforts. However, many of these elements have been significantly improved upon in the updated framework through the introduction of the multiple choice-based format that consolidates several binary (yes/no) questions and with the inclusion of additional KPIs like board oversight of the company sustainability efforts.

To enhance clarity and granularity of the information captured, there is still room to include several KPIs under the sustainability management system section. For example, GRI encourages the inclusion of sustainability-linked performance incentives for executives, as well as detailed descriptions of governance structures to ensure accountability and alignment with sustainability objectives. Furthermore, best practices stress the importance of ESG-specific training initiatives for employees and leadership, as these programs are crucial for embedding ESG principles into daily operations and fostering a culture of sustainability throughout the organization. Without these elements, organizations risk missing critical opportunities for improvement and alignment with global sustainability goals.

Table 4 below summarizes these recommendations for consideration:

Table 4 Analysis of sustainability management indicators in the ESG reporting framework and potential areas of improvement

Indicator	Potential Addition, Refined?	GRI Standard Aligned[44]	Rationale
Sustainability Management System			
What percentage of your business units have ESG embedded strategies?	Potential Addition	GRI 103	Tracking sustainability strategies across distinct business units.
What is the percentage of business operations covered by your sustainability policy?	Potential Addition	GRI 103	Tracking sustainability policy coverage across operations of the business units, or the company entirely
What are the annual expenditures on sustainability initiatives as a percentage of your operational budget?	Potential Addition	GRI 201	Tracks budgetary commitments towards sustainability targets

Additional improvements in the questions of the updated framework that could be embedded:

- For the question —Does your company have a management system in place to continually evaluate and improve its sustainability performance in line with its sustainability commitments? What elements does it cover? "Provide any additional information" option should be added for companies to provide additional elements beyond the choices given to capture any other elements that are in place.

- Under "Who is responsible for management of sustainability issues at your company?" the option could include the option to add the visualization of the ESG Board and Management Committee's organizational structure for climate governance, to align with the climate related disclosure guidelines and template.

- Under the Materiality assessment additional option "The company conducts materiality assessment but does not disclose or report" should be added to capture the gap between assessments and disclosure.

[43] ESG and Sustainability Reporting Guidance for Mongolian Companies | United Nations Development Programme. Available at https://www.undp.org/mongolia/publications/esg-and-sustainability-reporting-guidance-mongolian-companies.
[44] GRI - GRI Standards English Language. (n.d.). Available at https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/

2. Environmental issues

The environmental dimension of sustainability concerns the organization's impact on living and non-living natural systems. The environmental category covers impact related to inputs (such as energy and water) and outputs (such as emissions, effluents and waste). In addition, it covers biodiversity, product and service-related impacts, as well as environmental compliance and expenditures.[45]

This section under the current framework needed further alignment with best practices to provide more granular insights across key areas such as climate change, energy, water, and waste. For example, GRI Standards and CDP (Carbon Disclosure Project) emphasize the need for detailed emissions reporting that distinguishes between Scope 1, Scope 2, and Scope 3 emissions. This differentiation allows for a clearer assessment of emissions across the entire value chain and enhances transparency. Additionally, integrating water usage and waste management metrics in line with ISO 14001 standards would provide a more comprehensive understanding of environmental impacts. Best practices also recommend using specific, measurable indicators to track progress and identify areas for improvement.

Many of these elements have been added in the updated framework especially under the energy, emissions, water and waste subsection the multiple choice-based questions capture several relevant and important KPIs that were lacking in the current framework.

However, under the updated framework, key indicators pertaining to infrastructure, greenness of office and buildings as well as measures for adaptation and resilience building can be added. Table 5 below summarizes these recommendations for consideration:

[45] ESG and Sustainability Reporting Guidance for Mongolian Companies | United Nations Development Programme Available at https://www.undp.org/mongolia/publications/esg-and-sustainability-reporting-guidance-mongolian-companies.

Table 5 Analysis of environmental indicators in the ESG reporting framework and potential areas of improvement

Indicator	Potential Addition, Refined?	GRI Standard Aligned[44]	Rationale
Sustainability Management System			
Total facilities owned, leased, managed that are primarily grey infrastructure based?	Potential Addition		Measures of usage of grey construction materials
Total facilities owned, leased, managed that are primarily natural infrastructure based	Potential Addition		Measures usage of nature-based construction materials (for climate adaptation)
Number of energy efficient offices (or %)	Potential Addition		Measures progress in implementation of nature-based solutions for climate adaptation and resilience
Percentage of facilities with physical climate risk adaptation measures?	Potential Addition	GRI 201	Tracks climate risk preparedness (different from natural-based measures)
Amount invested into local adaptation and resilience projects?	Potential Addition		Environmental stewardship
Amount invested into local ecosystems?	Potential Addition		Environmental stewardship

Additional improvements in the questions of the updated framework that could be embedded:

- Financed emissions for the financial institutions (Scope 3 category 15) should include option to specify methodology. (Joint Impact Modeling, Tools developed by MSFA and German Savings Bank Foundation.)
- Under the climate change subsection, Banks should have the option to report whether they have conducted climate stress testing or scenario analysis as part of the Bank of Mongolia initiatives and add information on the risks identified.
- Water savings that are present framework are omitted in the updated framework.

- While questions related to water, energy and waste question the reporter whether this information is disclosed before requesting the quantitative values, additional information on where these indicators and information is disclosed would be useful.

- In the biodiversity sub-section it would be useful to track if the banks (voluntarily) have started to align disclosures based on the recommendations from initiatives like Taskforce on Nature-related Financial Disclosures (TNFD).

3. Social issues

The social dimension of sustainability concerns the organization's impact on the social systems within which it operates. Social factors include considerations that affect the wellbeing of employees, customers, and local communities and that are under the control or influence of the company. This includes fair treatment of workers, health and safety of workers and consumers, access to and affordability of basic services, economic impact on local communities, and conditions of relocation and livelihood restoration for resettled communities. Investors and stakeholder expectations of how companies manage community, and indigenous relations continue to expand, especially with the outbreak of COVID-19.[46]

The social area could use the addition of indicators for workforce inclusion, workforce diversity metrics, such as gender representation and leadership inclusion, pay equity indicators, such as non-salary compensation ratios and gender-based bonuses. Additional indicators and metrics to evaluate annual investments in occupational health programs, which are increasingly critical due to climate-induced stresses, such as extreme heat and rising disease risks could be added.

The framework can be further improved in reporting training related indicators. Quantitative safety metrics, such as annual safety training hours per employee, anti-harassment and anti-discrimination training indicators should be included to foster a safe and inclusive work environment. Diversity, equity and inclusion information can move beyond binary gender to capture representation of differently abled, rural, and indigenous classification. Additional information on the company's initiatives on investment for community and local ecosystems can be captured. The updated framework also currently does not capture the company's employee and general net promoter scores.[47] Table 6 below summarizes these recommendations for consideration.

[46] ESG and Sustainability Reporting Guidance for Mongolian Companies | United Nations Development Programme Available at https://www.undp.org/mongolia/publications/esg-and-sustainability-reporting-guidance-mongolian-companies.
[47] Net Promoter Score: The simple metric that's taking over big business | Fortune. Available at https://fortune.com/longform/net-promoter-score-fortune-500-customer-satisfaction-metric/.

Table 6 Analysis of social indicators in the ESG reporting framework and potential areas of improvement

Indicator	Potential Addition, Refined?	GRI Standard Aligned[44]	Rationale
Sustainability Management System			
Percentage of employees from underrepresented groups (rural communities, indigenous populations)?	Potential Addition	GRI 405	Workforce diversity
Percentage of job openings filled by diverse candidates (i.e. neuro-diverse, gender-diverse, ethnically, racially)?	Potential Addition	GRI 405	Workforce diversity
Ratio of average male to female additional income (i.e. bonuses, commission, options, equity)	Potential Addition	GRI 405	Complete assessment of the gender gap, beyond income
Does your company provide anti-sexual harassment policy training? Total hours oftraining? Frequency of renewed training?)	Potential Addition	GRI 406	Workplace fairness and ethics policies compliance
Number of community consultations or engagements conducted annually?	Potential Addition	GRI 413	Indicates frequency of stakeholder engagement and feedback received from local communities
Percentage of operations contributing to rural infrastructure development?	Potential Addition		Impact on rural community connectivity
Amount invested in local ecosystems?	Potential Addition		Social responsibility
Average employee Net-Promoter Score (eNPS)?	Potential Addition		Social responsibility
Average Net-Promoter Score (NPS)?	Potential Addition		Social responsibility

Additional improvements in the questions of the updated framework that could be embedded:

- Number of people promoted by men and women needs to define the time period (annual promotion or net promotions).
- For questions that ask if particular information is disclosed, it is also important to capture where that information is disclosed.
- Assessment of accessibility must go beyond parking lots to include access to office spaces for employees and customers, information on accessibility measures across offices and branches, accessibility of information in other formats like braille and audio for impaired personnel should be included.
- Under the "compliance with laws and regulations regarding disability", an additional question to understand if the company complies with laws and regulations across all accessibility standards.
- Under the questions pertaining to human rights, information on adherence to international charters and regulations like the Global Compact, International Labour Organization (ILO) etc. should be captured.
- Under the supply chain sub-section, the classification of green procurement must be based on the Mongolian SDG taxonomy additional categories like social and sustainable should also be added following the development of the SDG taxonomy.

4. Governance issues

Governance issues such as legal violations, operational negligence, corruption, or failure to follow acceptable standards of corporate governance can have swift, dramatic consequences for a company's reputation or financial stability. These consequences do not just affect employees and shareholders, but communities, families, suppliers and customers. As a result, investors are looking for assurance that the organization is systematically managing challenges that relate to corporate governance, ethical behavior and corruption.[48]

Governance section under the current framework reflected lesser focus on governance quality and climate risk integration. Indicators for board diversity, such as the representation of women and underrepresented groups, were absent, despite their importance for inclusive leadership. Furthermore, the lack of emphasis on external audits for ESG reporting reduced the credibility and transparency of disclosures. Metrics aligned with TCFD recommendations were also missing, such as those for climate risk identification, assessment, and management. This oversight weakened the framework's ability to address and disclose climate-related financial risks effectively.

Many of these issues have been addressed in the updated framework. Where the options under the multiple-choice questions work well to capture additional details and improve granularity. Additional KPIs increase the coverage to include code of ethics/conduct, whistle blower mechanism and policy commitment to anti-bribery.

The updated framework can be further enhanced by inclusion of training and capacity building metrics throughout the different levels of the organization, frequency of internal data verification, share of investments aligned with the national SDG taxonomy and governance focus on nature related issues could be further additions as highlighted in Table 7 below.

[48] ESG and Sustainability Reporting Guidance for Mongolian Companies | United Nations Development Programme
Available at https://www.undp.org/mongolia/publications/esg-and-sustainability-reporting-guidance-mongolian-companies.

Table 7 Analysis of governance indicators in the ESG reporting framework and potential areas of improvement

Indicator	Potential Addition, Refined?	GRI Standard Aligned[44]	Rationale
Sustainability Management System			
Percentage of total employees trained on anti-corruption measures? Percentage of total board trained on anti-corruption measures? Total hours of training?	Potential Addition	GRI 205	Anti-corruption governance practices
Percentage of executive remuneration linked to ESG performance indicators?	Potential Addition		ESG-related board responsibilities
Frequency of internal ESG data verification?	Potential Addition	GRI 102	Code of conduct assurance
Share of company investments aligned with Mongolia's Green or SDG taxonomies?	Potential Addition		Governance of invested assets in a sustainable manner
Presence of a nature-focused committee?	Potential Addition		Nature Governance

5. Sector specific considerations: Financial sector

This section improves significantly under the updated framework from the current framework. There are additional details captured under financial inclusion and literacy initiatives, exclusion policies and screening mechanisms, use of sustainable instruments and sustainable finance products have also been added, while operational risks to reflect data security are also included. Some of the potential improvements for the financial sector specific section are:

- Possibility to specify the nature of initiatives on financial literacy and inclusion.
- If the bank or Financial Institution (FI) has issued thematic bonds or other sustainable finance instruments, additional information on the bond framework, Second Part Opinion (SPO), verification and certification would be important to capture.
- While there is a question to capture the sustainable product offering, additional information of products and their shares in the bank's portfolio that align with the Mongolian SDG taxonomy would be important to assess the state of sustainable finance.
- Additional questions on operational risks and legal risks can be added, for which the qualitative questionnaire from the pilot climate scenario analysis exercise of 2024-25 can serve as a reference.

Recommendations

Further strengthen the reporting framework: The updated framework improves upon the existing framework in many areas. The framework can be further strengthened by additions to sustainability management system section, deepening of environmental disclosures, broadening of social metrics and improvement in governance indicators as highlighted in the respective sub-sections above.

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VI: CONCLUSION

Integrating ESG principles into Mongolia's financial system is a transformative opportunity to address the country's climate vulnerabilities and align with global sustainability efforts. As Mongolia faces the impact of exacerbated climate risks, a robust ESG framework can help mitigate these challenges while unlocking new opportunities for economic diversification and resilience. By aligning its reporting practices with internationally recognized frameworks like IWA 48, IFRS/ISSB, GRI, TCFD, and TNFD, Mongolia can ensure transparency, accountability, and global comparability of its sustainability efforts.

The current ESG guidance and template provide a critical foundation but can be enhanced to address climate-focused sector-specific risks and gaps in key areas. While the updated framework helps to improve efficiency and granularity of reporting, further enhancements such as granular environmental metrics, workforce equity indicators, and stronger governance oversight will strengthen the framework's depth and usability. Furthermore, incorporating double materiality into assessment frameworks can help provide considerations of the organization's impacts on society and the environment, and external factors affecting the organization's performance. This approach will help ensure a holistic and dynamic assessment of ESG risks and opportunities.

ESG principles must be integrated into existing regulations to ensure systemic adoption, compliance, and enforcement. Implementation with a phased approach will foster trust, attract sustainable investments, and align Mongolia's financial system with international standards, while bridging capacity and data gaps. Harmonization of regulations for institutions under multiple jurisdictions will be critical to ensure compliance and ease regulatory burden.

Data collection must be complemented with data analysis and risk-based supervision mechanisms that support formulation of forward-looking regulations and policies. Continuous analysis of ESG data should be leveraged for effective risk management, improving transparency, formulating policies that align with national sustainable development goals, attract green and sustainable finance and ensure coherence and interoperability regionally and globally. Over the long-term digitalization would be key to support the effective implementation of ESG reporting. It will be necessary to continue to build on the ongoing digitalization efforts like the reporting portal and leverage advanced technologies like artificial intelligence (AI), machine learning (ML), and blockchain. These tools will further streamline data collection, validation, and reporting processes, improving efficiency, accuracy, and accessibility. Blockchain technology particularly has the potential to offer a secure and transparent system for managing ESG data, addressing concerns around integrity and verification while reducing inefficiencies.

Through incremental changes and robust regulatory guidance, Mongolian financial system can position itself as a regional leader in sustainable finance. A strengthened ESG framework will not only manage risks and meet regulatory expectations but also drive inclusive, long-term growth by aligning economic priorities with global sustainability goals. Through this comprehensive approach, Mongolia can build resilience, attract responsible investments, and create a more sustainable and prosperous future for its economy and people.

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