

Financial Solutions for the Joint Crediting Mechanism:
*How banking sector involvement can help
make JCM a success*



Eco Banking Department



Introduction: The Eco Banking Department



Since 2009, XacBank's Eco Banking Department has worked with a range of partners—including **donors, international financial institutions, government agencies, and small companies**—to increase access to sustainable solutions and to encourage investment in clean energy and energy efficiency.

Our expertise can be broken down into three areas:

DISTRIBUTION

- In cooperation with government partners, we have facilitated distribution and payment transfers for over 120,000 energy-efficient stoves and ger blankets to ger district households in Ulaanbaatar.

CONSUMER LENDING

- Nearly USD 1 million in green loans have been disbursed by XacBank, helping households purchase green products and adopt of energy efficient practices,.

SME AND PROJECT FINANCE

- Our SME loans offer below-market interest rates for companies that provide or adopt energy solutions that reduce carbon emissions.



Introduction: The Eco Banking Department



The Eco Banking Department's experience in green lending, green lending resources, and dedicated team of clean energy finance experts make XacBank uniquely positioned to support clean energy projects in Mongolia—both under JCM and otherwise.



- In January 2012, XacBank and the Global Climate Partnership Fund joined forces to help SMEs, large corporations, and developers gain access to low-cost financing for projects that reduce carbon emissions.
- The facility supports green projects in any field. Clients have included manufacturers of energy-efficient building materials, buyers of energy-efficient houses, and biodiesel producers. Each loan opportunity must demonstrate carbon emission reductions of least 20%.
- Clients can qualify for loans for either the production, distribution, or adoption of green products and practices. Loans can range in size from under USD 100,000 to over USD 1 million.



- In May 2013, XacBank signed an advisory agreement with the IFC to support the development of institutional capacity and loan products for energy efficiency and renewable energy in the SME and project-based market segments.
- Through the agreement, XacBank is able to draw on the expertise of IFC's Sustainable Energy Finance (SEF) team in Beijing in order to identify EE/RE solutions, assess the viability of EE/RE projects in Mongolia, and select the technical partners needed to carry out EE/RE initiatives

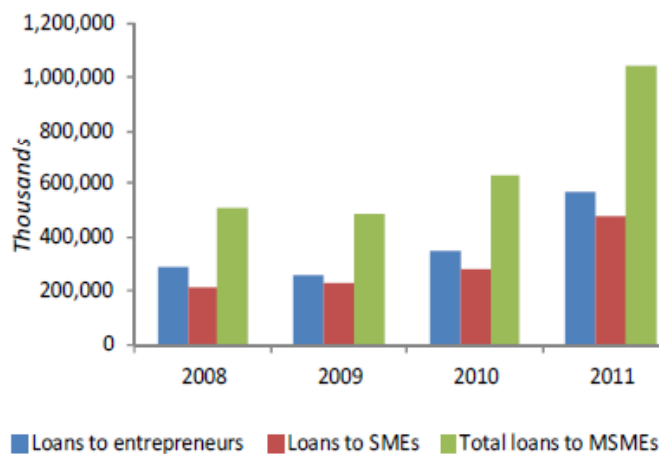


Green Finance for JCM – SME

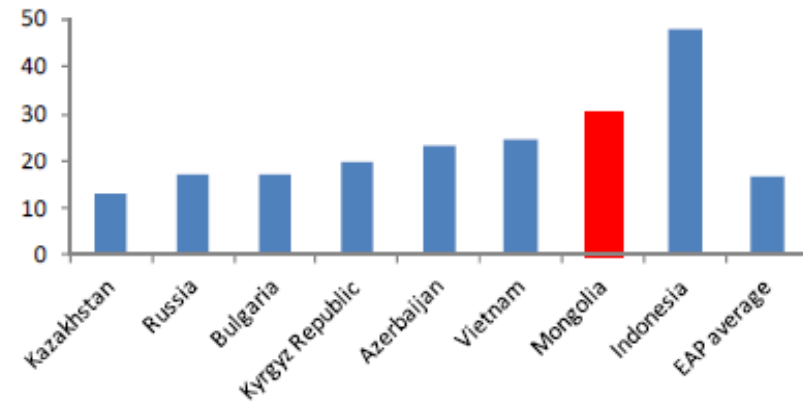


- SME lending represents one of Mongolia's fastest growing financial market segments and **is an area of major potential for mid-scale JCM projects.**
- Yet **financing gaps exist.** Access to conventional debt is challenging for SMEs, especially when attempting to implement an EE or RE project.
- Through its existing GCPF facility, XacBank provides SMEs with **below-market interest rates for clean energy and energy efficiency projects.**
- In the near future, XacBank hopes to **acquire further funding from the Asian Development Bank**—which will help support renewable energy initiatives approved by the Mongolian Ministry of Energy.

Loan Issuance to Micro, Small, and Medium Enterprises in Mongolia



Percentage of Survey Respondents Indicating Access to Finance is Biggest Obstacle to Operations



Source: World Bank, 2012



Green Finance for JCM – Large-Scale



- XacBank’s existing and expected green finance resources—from GCPF and ADB—can also be applied to industrial-scale renewable energy projects, like many of those that will be carried out under JCM.
- The Eco Banking Department has conducted research and financial analysis in several project areas, including:
 - Large-scale solar
 - Waste heat recovery for cement plants
 - Coalbed methane
 - Biogas combined heat and power
- These types of projects will require significant financing. Achieving high IRRs will demand below-market interest rates and long tenors. As well, project implementers will need support to cover the upfront costs of construction prior to JCM subsidy disbursement.



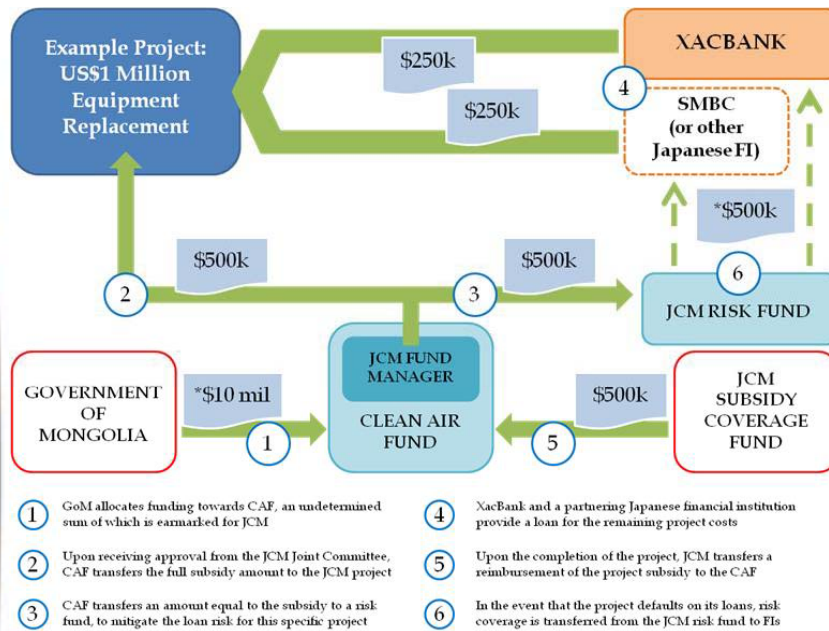
Applying Financial Resources – A JCM Solution



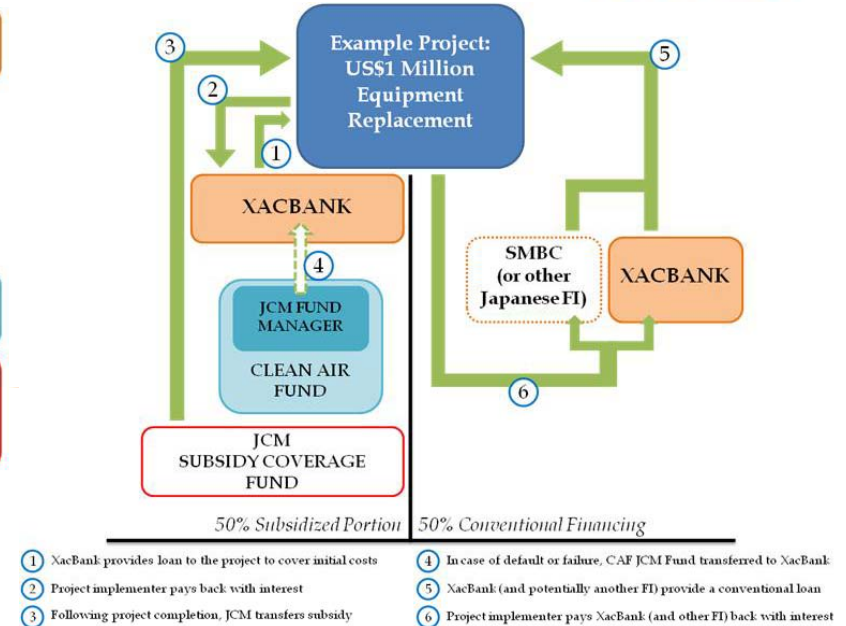
- **XacBank has the green finance resources to support projects under JCM.** But how can these resources be best applied, and how can the government and XacBank work together to make financing accessible for a large number of projects?
- To address both the needs of **SME project implementers and large-scale contractors** under the Joint Crediting Mechanism, XacBank has cooperated with OECC and the Ministry of Environment and Green Development to create a financing scheme that will accompany Mongolia's Joint Crediting Mechanism.
- XacBank has proposed two potential financing schemes involving the Clean Air Fund to MEGD. Each addresses the two main challenges faced by JCM projects. These are:
 - **Covering 50% of upfront costs for construction, prior to subsidy issuance**
 - **Risk mitigation in order to encourage banks to provide accessible, low-cost loans to projects**



JCM – Potential Financing Schemes



Financing Scheme A



Financing Scheme B

- **Financing Scheme A** relies on the Clean Air Fund to cover initial costs and establishes a risk coverage fund to support lending from XacBank and potential co-financiers for the remaining 50%
- **Financing Scheme B** uses XacBank to provide concessional, short-term debt to cover the to-be-subsidized portion of the project. The remainder of the project is financed through conventional means



Moving Forward – Finalizing JCM Support



- In the coming months, the finalization of 2 initiatives will make a significant impact on the scope and success of JCM in Mongolia:
 - *First*, the selection and the implementation of one of the two proposed financing schemes will help to **increase access to capital** for JCM projects and will help to **lower interest rates** for project implementers
 - *Second*, securing **low-cost financing from the Asian Development Bank** will allow a larger number of projects selected and approved by the Ministry of Energy to receive low-interest funding.
- In the meantime, XacBank's Eco Banking team looks forward to meeting with interested project contractors and implementers to discuss the potential for both mid- and large-scale clean energy initiatives under JCM.



Contacts

- **Tuul Galzagd**, Director
Eco Banking Department, XacBank
tuul.g@xacbank.mn
- **Spike Hosch**, Senior Project Development Officer
Eco Banking Department, XacBank
augustine.h@xacbank.mn
- **Batsanaa B.**, Senior Project Development Officer
Eco Banking Department, XacBank
batsanaa.b@xacbank.mn



Thank you!