“TWO-STEP-LOAN PROJECT FOR SME DEVELOPMENT AND ENVIRONMENTAL PROTECTION”

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Objective

Private sector development and environmental protection

1. Provision of long-term finance to SME including projects for environmental protection

2. Provision of technical assistance to commercial banks and SMEs

3. Strengthening long term financing capacity of the participating banks

Contribution to the development of LTF market; employment creation and poverty reduction in Mongolia
Participating financial institutions

Phase I (2006-2010)
- Anod
- Capitron
- Golomt
- Khan
- TDB
- Xac
- Zoos (State)

Phase II (2011-2015)
- Capital
- Golomt
- Khan
- TDB
- Xac
- UB City
## Characteristics of TSL

### 1. Long term finance

- *3-10 years of loan period*
- *10,000–600,000 USD or equiv. MNT*

### 2. Grace period

0-3 years depending on project maturity

### 3. Low interest rate

- MNT: 7.0% (annual)
- USD: 5.0% (annual)
Ineligible sectors

- Trade (wholesale and trade)
- Entertainment business that is harmful to the society (e.g. prostitution, gambling)
- Real estate, including for individual housing
- Environmentally-damaging projects
- Refinancing
- Military activities
- Loans for consumers
- Mining extraction
- Loans for individual business
- Alcohol and tobacco/cigarette manufacturing
- Loans for working-capital
Eligible enterprises

- SMEs which are defined in the SME Law, enacted in 2007, and are domestically private (i.e. majority private-owned)
- Number of employees not higher than 199
- Loan-to-value ratio < 80 percent
- Debt-service-coverage ratio > 1.3
- Financial internal rate of return of loan project > 13%
- No previous default
- Must have Environmental Impact Assessment (EIA) and no negative impact on environment
Environmental Protection Loan

TSL – (B) component
# Environmental protection loans

<table>
<thead>
<tr>
<th></th>
<th>TSL-I</th>
<th>TSL-II</th>
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<tbody>
<tr>
<td>Term</td>
<td>2006-2010</td>
<td>2011-2015</td>
</tr>
<tr>
<td>Total seed fund</td>
<td>573 million JPY (5.8 billion MNT)</td>
<td>870 million JPY (14.7 billion MNT)</td>
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<td>Loan condition</td>
<td>Same as SME loan</td>
<td>* No specific ceiling for loan amount</td>
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<tr>
<td>Disbursed amount</td>
<td>5.8 billion MNT</td>
<td>8.6 billion MNT</td>
</tr>
<tr>
<td>No. of sub-projects</td>
<td>21 (SA)</td>
<td>21 (as of Sep 2013)</td>
</tr>
<tr>
<td>financed</td>
<td></td>
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<tr>
<td>Priority area</td>
<td>Environment protection</td>
<td>Air pollution reduction</td>
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**Priority:** Air pollution reduction

1. **Heat-Only-Boilers (HOB)**
   - Replacement old HOBs
   - Manufacturing
   - Production of efficient Ger stoves

2. **Clean fuel**
   - Processing of raw coal
   - Production of efficient clean fuel: briquettes, semi-coke

3. **Other:**
   - Energy efficient construction materials
   - Renewable energy
   - Recycling
Disbursed EPL sub-projects

TSL – Phase I

- 21 EPL projects
  (2006-2010):
  - Recycling of technical oil
  - HOB replacement, ger stove
  - Eco bag factory
  - Felt production
  - Semi-coke and briquette manufacturing
  - Sewage cleaning facility
  - Expansion of irrigation facility
  - Seabuckthorn plantation
  - Power supply equipment
  - Tree farming, green house, bee farm
  - Energy, heat efficient construction materials

- 9 EPL projects from Revolving fund (since 2011)

TSL – Phase II

- 21 EPL projects
  (since 2011):
  - HOB replacement - 7
  - Clean fuel - 1
  - Renewable energy - 2
  - Energy efficiency - 9
  - Dust recycling - 1
  - Carbon capture - 1

- 5 EPL projects in pipeline
EPL eligibility: Monitoring indicators

- SMEs which are defined in the SME Law, enacted in 2007, and are domestically private (i.e. majority private-owned)
- Number of employees not higher than 199
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- No previous default
- Must have Environmental Impact Assessment (EIA) and no negative impact on environment

- Measurable impact on environment
Monitoring indicators

- Dust emission
- Energy saving
- Coal saving
- CO2
- NOx
- SOx
- CO
Emission reduction: Electric energy

Electric Energy (kWh/year)

46.4% reduction or 23 million kWh/year saved

Before Project

After Project

49,452,888.60

26,494,249.30
Emission reduction (SO₂, NOₓ, CO)

- **SO₂**:
  - Before Project: 97.03 ton/year
  - After Project: 38.73 ton/year
  - Reduction: (60.1%)

- **NOₓ**:
  - Before Project: 36.04 ton/year
  - After Project: 14.32 ton/year
  - Reduction: (60.3%)

- **CO**:
  - Before Project: 1,134.88 ton/year
  - After Project: 351.38 ton/year
  - Reduction: (69.0%)
Emission reduction (coal, dust, CO2)

- **Coal consumption**
  - Before Project: 53.27 thousand tons/year
  - After Project: 30.94 thousand tons/year
  - Reduction: 41.9%

- **Dust**
  - Before Project: 67.55 thousand tons/year
  - After Project: 28.10 thousand tons/year
  - Reduction: 58.4%

- **CO2 reduction**
  - Before Project: 74.73 thousand tons/year
  - After Project: 40.46 thousand tons/year
  - Reduction: 45.9%