UNITED NATIONS ESCAP
Economic and Social Commission for Asia and the Pacific

Bazaar of Ideas

"Applying the Green Growth approach for basic service delivery and poverty reduction"

Committee on Environment and Development
first session, Bangkok, 2 – 4 December 2009

Name: XacBank Eco Loans - Providing Heat and Clean Air to Urban Poor

Conserving: Energy, Pollution reduction

Sector: Housing (Yurts)

Presented by: Xacbank, Eco Products Unit

Championed by: ESCAP

Location: Mongolia

Year of introduction: 2009

Concept: XacBank Eco Products Program provides an affordable means for Mongolian households to lower their fuel costs, breathe cleaner air, and stay warm in the depths of the long winter months**.** The Bank does this through providing poor households with low interest loans that allow them to switch to energy efficient heating products. Switching to energy products like a highly efficient stove, or an extremely insulated ger (yurt) provides these families with a far more efficient way to heat their home and leaves more money each month for them to spend on food and other household needs. Additionally, each household reduces their emissions of green house gases by lowering their dependence on fuels such as coal, wood and kerosene. The Bank uses carbon revenues to offset the costs of its program.

Other information: Pollution levels in the city of Ulaanbaatar during the winter heating season are, on average, twenty times those of summer of levels. The World Bank attributes 60% of this pollution to coal burned in the sub-urban ger-district areas. On average, households located in the ger-districts use 5 tons of coal and 1.5 tons of wood per year. The bottom fifth socio-economic quintile spends as much as 40 percent of their monthly winter income on heating fuels. The bank's ability to supply energy products to the poorest market segment is based on two financial innovations and partnerships. The first partnership is with FMO, a Dutch Development Bank, which signed a loan facility agreement for 5 million dollars. 2.5 million of the agreement was ear-marked exclusively for Solar Panels and 2.5 million to finance energy efficient products. This facility agreement has allowed the bank to pass the lower interest rate that it pays to FMO on to its clients (approx. 17% compared to market rates of 26-30%). The Bank's second partnership is with Micro Energy Credits (MEC). MEC is a carbon aggregator that works with Micro Finance Institutions across the world. From a small MFI's perspective, traditional access to carbon markets is impossible. MEC allows MFIs to access carbon revenues by providing certification and aggregating credits from different MFIs around the world to bundle and sell to carbon brokerage firms. Xacbank uses the carbon revenues to pay for product marketing on behalf of its eco micro-businesses, cover program costs, sustain below market interest rates for eco products, and expand into new eco sectors.

Associated costs and benefits: The end result of the bank's efforts is an economically stable program that provides an opportunity for households to save money and live healthier lives. On average, households spend 80,000 MNT on heating each month during the winter season. This is roughly 40% of their income and is often taken from a family's food and health budget. That heating budget is cut in half when a household begins using an energy efficient product. Even when loan repayment (7,500 – 27,000 MNT) is considered as an additional cost, families still gain a net savings between 14,000 and 33,000 MNT each month.

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