



Report and Recommendation of the President to the Board of Directors

Project Number: 47930
November 2013

Proposed Senior Loans XacBank and TenGer Financial Group Supporting Micro, Small, Medium-Sized Enterprises and Leasing Finance (Mongolia)

This is an abbreviated version of the document approved by ADB's Board of Directors that excludes information that is subject to exceptions to disclosure set forth in ADB's Public Communications Policy 2011.

CURRENCY EQUIVALENTS

(as of 31 October 2013)

Currency unit	–	togrog (MNT)
MNT1.00	=	\$0.0006
\$1.00	=	MNT1,638

ABBREVIATIONS

ADB	–	Asian Development Bank
BOM	–	Bank of Mongolia
CAR	–	capital adequacy ratio
CEO	–	chief executive officer
EBRD	–	European Bank for Reconstruction and Development
ESMS	–	environmental and social management system
IFC	–	International Finance Corporation
IFI	–	international financial institution
MSMEs	–	micro, small, and medium-sized enterprises
SMEs	–	small and medium-sized enterprises
TFG	–	TenGer Financial Group

NOTES

- (i) The fiscal year (FY) of TenGer Financial Group, XacBank, and XacLeasing ends on 31 December.
- (ii) In this report, “\$” refers to US dollars.

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PROJECT AT A GLANCE

1. Project Name: XacBank and TenGer Financial Group for Supporting Micro, Small, Medium-Sized Enterprises and Leasing Finance in Mongolia 2. Project Number: 47930																				
3. Country: Mongolia		4. Department/Division: Private Sector Operations Department Financial Institutions Division																		
5. Sector Classification: <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 5px;"> <thead> <tr> <th style="width: 30%;">Sectors</th> <th style="width: 20%;">Primary</th> <th style="width: 50%;">Subsectors</th> </tr> </thead> <tbody> <tr> <td>Finance</td> <td style="text-align: center;">X</td> <td>Banking systems Microfinance Small and medium-sized enterprise finance and leasing</td> </tr> </tbody> </table>				Sectors	Primary	Subsectors	Finance	X	Banking systems Microfinance Small and medium-sized enterprise finance and leasing											
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13. Counterpart Financing: Not applicable																				
14. Aid Effectiveness: Not applicable																				

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on proposed senior loans of up to \$30,000,000 to XacBank, and up to \$10,000,000 to TenGer Financial Group (for onlending to XacLeasing), for Supporting Micro, Small, Medium-Sized Enterprises and Leasing Finance in Mongolia.¹

II. THE FINANCIAL INTERMEDIARY

A. Investment Identification and Description

2. Development of micro, small, and medium-sized enterprises (MSMEs) is critical for the diversification of Mongolia's economy, which relies heavily on the mining industry. MSMEs make up 98% of all enterprises in Mongolia, three-quarters of which are microenterprises.² Access to finance is the foremost constraint for Mongolian MSMEs—the World Bank's Enterprise Surveys show that more than 30% of small and medium-sized enterprises (SMEs) in Mongolia perceive access to finance as the largest issue for their operations.³ It is estimated that only about 10% of around 37,000 Mongolian SMEs regularly access finance through banks.⁴ Another World Bank study notes that when finance is available to SMEs, loan terms and conditions are characterized by high interest rates, shorter maturities, and smaller amounts that do not meet the full financial needs of these companies and primarily require immovable collateral (footnote 2). There is therefore very significant unmet financing demand from all MSME segments in Mongolia, and commercial banks are seeking to raise additional sources of funding to respond to this.

3. The Asian Development Bank (ADB) met several financial institutions to find suitable candidates with the interest and ability to serve the MSME segment, and to examine ways to support the financing needs of those MSMEs and SMEs that cannot meet the traditional collateral requirements of banks. Additionally, ADB is developing a sovereign program to improve substandard living conditions through the provision of priority services to *ger* areas in Mongolia's capital, Ulaanbaatar (the Ger Area Development Program).⁵ Currently, 60% (or about 800,000) of the capital's population lives in the *ger* areas. ADB considered how the two projects could complement each other. Specifically, funding was needed for small businesses operating in the *ger* areas under the sovereign project. Hence, ADB sought a private sector bank that had experience in lending to lower-income businesses in *ger* areas. (To further support MSME access to finance, ADB is in the early stages of processing a loan to another systemically important commercial bank in Mongolia, which would complement this initiative).

4. ADB held discussions with TenGer Financial Group (TFG), a financial holding group with six subsidiaries engaged in banking, leasing, general insurance, microcredit in the People's Republic of China, financial security, and financial advisory services. TFG has a core strategy of

¹ The design and monitoring framework is in Appendix 1.

² World Bank. 2012. *Financial Sector Assessment: Mongolia*. Washington, DC.

³ Mongolia's SME law defines SMEs by sector—industry retail trade: maximum 199 employees and maximum turnover of MNT1.5 billion; trade: maximum 149 employees and maximum turnover of MNT1.5 billion; services: maximum 49 employees and maximum turnover of MNT1 billion.

⁴ The World Bank Enterprise Surveys. <http://www.enterprisesurveys.org/>. Other constraints noted were the tax rate, inadequately educated workforce, informal-sector practices, political instability, and licensing and permitting problems. Asian Development Bank (ADB). 2012. *Improving Access to Finance in Mongolia*. Manila; ADB. 2012. *Promoting Private Sector Development in Mongolia*. Manila.

⁵ The \$320 million Ulaanbaatar Urban Services and Ger Areas Development Investment Program (Project Number: 45007) targets specific *ger* areas (named after *ger* tents) where services such as water supply and sewerage will be provided to economic hubs (subcenters) to rationalize costs. Many businesses are also operated from *gers*.

“People, Planet, and Profit.” Largest among the group’s holdings is XacBank, which accounts for 97% of its assets. XacBank, a participant in ADB’s Trade Finance Program, is a systemically important bank in Mongolia with its origins in microfinance. XacBank has the highest international credit rating among Mongolian banks, setting high governance standards since its inception. It has excellent asset quality and a strong focus on being responsive to the needs of its customers and, more broadly, the people of Mongolia, with the goal of promoting more equitable, inclusive growth across the country.⁶ XacBank expanded into the SME segment, where there is significant unmet demand for financing, and now provides other standard bank products. XacBank is active in *ger* areas and has branches specifically in the *ger* areas (Bayankhoshuu and Selbe) targeted under the Ger Area Development Program.⁷

5. XacLeasing, TFG’s wholly owned subsidiary, has been active in Mongolia since 2007 and has a market share of about 14%. XacLeasing provides leases to companies and individuals, primarily equipment leasing for small businesses and leasing to individuals for passenger vehicles. By lending to TFG in addition to XacBank, ADB will also have the opportunity to support the country’s emerging leasing industry, which is important since some businesses struggle to provide the collateral typically required by banks. Given XacBank’s strong developmental mandate as compared with the other commercial banks and its ability to touch the underserved poor in Mongolia, coupled with the opportunity to support the leasing industry through TFG, ADB selected XacBank and TFG as candidates for the proposed loans.

B. Business Overview and Strategy

6. TFG was established in 1998 as a holding company for XacBank, which grew to become one of the most prominent microfinance institutions globally. TFG is now a major Mongolian financial group with a portfolio of growing companies engaged in financial services. XacBank accounts for the majority of group assets, while XacLeasing accounts for 2% of group assets. TFG’s insurance subsidiary has limited operations to date. The remaining companies within the group are service-based firms that generate advisory fees.

7. XacBank is Mongolia’s fourth-largest commercial bank. It operates in all 21 provinces and in Ulaanbaatar, serving more than 525,000 customers through its 103 retail and four SME business branches, as well as specialized banking outlets that include 888 mobile banking merchants and 49 savings and credit cooperatives. XacBank strives to be the market leader in Mongolia for corporate governance, transparency, and risk management. It has developed a reputation for its corporate social responsibility initiatives and received a rating of 4 out of 5 from the development finance rating agency, Planet Finance, for its long-standing social performance. The bank’s goal is to be a client-focused company that is accessible and innovative, and able to leverage the economic growth prospects of Mongolia.

8. XacLeasing was established in 2007 to offer equipment leasing to SMEs and individual clients. In February 2013, the company provided leasing services to 331 customers. The total lease portfolio at fiscal year-end 2012 was MNT20.9 billion. Construction, road maintenance, and transportation represent the largest sector exposure (41%), followed by manufacturing (11%), trade (8%), services (7%), and mining (4%). In terms of underlying assets, about 80% of total leases are passenger and commercial vehicles. The balance is made up of equipment in

⁶ XacBank and TFG have also been at the forefront of financial education efforts. In 2012, XacBank delivered social and financial education programs to 30,000 children and youths throughout Mongolia.

⁷ An SME Development Committee has been established in each subcenter. Provision of business incubator buildings combining vocational training and renting space for SMEs is included in the first tranche of the Ger Area Development Program. This will form a relevant and efficient vehicle for XacBank’s MSME lending program, and complement the MSME development component of the ADB sovereign program.

various sectors, such as agriculture, health, and education.⁸ The company initially adopted a conservative approach, which led to slow portfolio growth in early years as management focused on building relationships with vendors.

9. Despite the slower growth initially, XacLeasing has been profitable every year since 2008, generating an average return on equity of more than 10% by 2012. The company has developed strategic partnerships with key equipment vendors in Mongolia covering manufacturing, transportation, mining, health care, and agricultural industries. Bolstered by increasing demand, more significant growth is expected: the total portfolio is estimated to reach MNT500 billion by 2017. Cross-selling is also an important part of TFG's strategy, and XacLeasing stands to benefit from leveraging XacBank's brand recognition and branch network. The International Finance Corporation (IFC) has provided technical assistance to XacLeasing for capacity building in areas such as risk management and corporate governance, and ORIX Corporation, which became a TFG shareholder in 2013, will provide strategic support for XacLeasing as it seeks to scale up its leasing activities.⁹

C. Ownership, Management, and Governance

10. **Ownership.** TFG's major shareholders are Mongolyn Alt Corporation (MAK) (20%), IFC (19%), ORIX Corporation (16%), European Bank for Reconstruction and Development (EBRD) (12%), Ronoc (10%), EIT Capital Management (10%), Mercy Corps (8%), and Triodos Fund (4%). The remaining small shareholders are Mongolian individuals and the Mongolian UB Rotary Club, Open Society Forum, Equity Investment Trust. XacBank and XacLeasing are wholly owned subsidiaries of TFG.

11. **Management.** TFG and XacBank have an experienced and well-qualified top management; the chief executive officer (CEO) of XacBank, Bat-Ochir Dugersuren, has been associated with the group since 1998 and held many senior positions, including chief financial officer of TFG and deputy CEO of XacBank. The bank has appointed a new chief risk officer in September 2013 who gained extensive experience in SME and corporate lending at ABN Amro Bank. The CEO of XacLeasing is Tsevegjav Gumenjav, supported by the chief operating officer, Daurenbek Serikjan. The XacLeasing management team has more than 20 years of combined experience in the finance sector.

12. Bold Magvan serves as the CEO of TFG, and has been an executive director on its board since January 2011. Before joining TFG, Magvan was XacBank's CEO for 2 years and its president for over 3 years. Magvan is a senior banking professional with more than 20 years of experience in global financial institutions, including the World Bank and the International Monetary Fund. His career experience also includes 4 years at the Bank of Mongolia (BOM) in the top management position of deputy governor from 1996 to 2000.

13. **Governance structure.** TFG recognizes the importance of sound corporate governance in supporting its sustainable growth and securing trust among its various stakeholders, including customers, staff, and shareholders. Besides adhering to the Principles of Corporate Governance of the Organisation for Economic Co-operation and Development, TFG bases its operations on the principles and best practices set out in the Corporate Governance Code, which the Mongolian Financial Regulatory Commission adopted in 2007.

⁸ XacLeasing. 2013. *Business Plan 2013–2017*. Ulaanbaatar.

⁹ ORIX Corporation is a Japanese financial services group established in 1964. The group offers leasing, lending, rentals, life insurance, real estate financing and development, venture capital, investment and retail banking, commodities funds and securities brokering. ORIX has also expanded globally, offering financial services in North America, Asia, the Middle East, and Northern Africa.

14. The board of directors of TFG consists of eight members and includes representatives from EBRD, IFC, ORIX Corporation, and Triodos Fund. The chairperson of the board is Chuluun Ganbold, a Mongolian national with more than 30 years of experience in business and administration. He is a founding member of X.A.C. (Golden Fund for Development), the first nonbank financial institution in Mongolia and a predecessor of XacBank. The board is responsible for determining the strategy of TFG and for supervising the conduct of its business, including responsibility for corporate governance.

15. The compliance department manages reporting of any suspicious transactions. The TFG companies have established “know your customer” principles, and have adopted policies on anti-money laundering and combating the financing of terrorism. Suspicious transactions are identified by scanning information based on key items such as transaction amount, politically exposed persons, and watch lists, and findings are reported to the Financial Information Unit of the BOM.

III. THE PROPOSED ADB ASSISTANCE

A. The Assistance

16. The proposed unsecured senior loans to XacBank for up to \$30 million and to TFG (for onlending to XacLeasing) for up to \$10 million will support Mongolian MSMEs through subloans made by XacBank and through leases provided by XacLeasing. The loan to XacBank represents about 25% of the bank’s annual funding needs based on historical growth rates.¹⁰ However, additional growth is expected in 2014 given the significant levels of unmet financing demand from MSMEs. The proposed ADB loan amount represents less than 15% of XacBank’s projected funding needs for 2014. Of the funding that ADB will provide to XacBank, up to \$6 million will be targeted to MSMEs in the Bayankhoshuu and Selbe *ger* areas under the Ger Area Development Program.

B. Implementation Arrangements

17. ADB will receive annual audited financial statements for TFG, XacBank, and XacLeasing in accordance with the International Financial Reporting Standards. ADB will also receive quarterly financial statements and compliance certificates for agreed financial covenants. Reporting requirements include (i) updates on governance, safeguards, and social protection compliance; and (ii) updates on XacBank and XacLeasing’s business performance and utilization of the ADB loans. ADB will field review missions at least annually to examine and discuss progress with TFG, XacBank, and XacLeasing’s management.

C. Value Added by ADB Assistance

18. ADB’s presence adds value through the following:
- (i) ADB will provide stable long-term financing that cannot be readily raised from the local market, and is needed to help banks deal with the maturity mismatch on their balance sheet. Mongolia’s capital markets are undeveloped and commercial bank funding is not readily available in large amounts. Also, Mongolia has felt the impact of the problems in Europe’s banking industry, which used to provide financing to Mongolian banks. Hence, Mongolian banks have had to turn to IFIs.
 - (ii) ADB’s loan to XacBank will help overcome the lack of access to finance that MSMEs now experience in Mongolia. MSME growth is needed to help diversify

¹⁰ XacBank’s loan portfolio growth has averaged about \$120 million annually since 2010.

the country's economy. The ADB loan also directly complements the work of the sovereign sector's Ger Area Development Program by helping promote private sector development and growth of business activity in the *ger* areas where XacBank already has an established branch presence.

- (iii) ADB's funding will also help support the nascent leasing industry in Mongolia, which is in need of access to funds for its growth. The leasing industry provides a critical alternative for businesses that cannot access bank funding due to collateral requirements.
- (iv) Through on-site monitoring with TFG, XacBank, and XacLeasing management over the life of the loan, ADB will support the group's adherence to high corporate governance, social, environmental, and risk management standards.

D. Risks

19. **Challenging operational environment.** Mongolia has a small, narrowly diversified economy, with high reliance on the cyclical mining sector. Recent high inflation has further exposed the banking industry to economic and policy risks, and there have been decreases in foreign direct investment and foreign exchange reserves. Solid economic growth prospects, along with progress in economic stabilization and an open, market-led economy partly mitigate these weaknesses.¹¹ Authorities have taken measures to tighten prudential regulations on capital requirements, asset classification, and loss provisions. The managements of TFG, XacBank, and XacLeasing are cognizant of the risks imposed by Mongolia's economic environment, and to help mitigate the risks imposed by the operating environment, the group conservatively manages its capital position and keeps a significant liquidity buffer at XacBank, which also maintains a diversified and granular loan portfolio with prudent limits on sector and borrower concentration.

20. **Rapid growth of credit in Mongolia.** Banking credit growth has increased in 2013, reaching 23% in the first 6 months of the year, partly driven by the government's specialized program funding for SMEs in targeted segments such as meat, flour, and fuel, as well as mortgages. This follows a slowdown in credit growth in 2012, when it was 24% for the full year. While credit growth has increased significantly since the global financial crisis, it was from a relatively small and narrow base. BOM is taking steps to improve bank supervision, and has increased the capital requirements for systemically important banks. As a systemically important bank, XacBank is exposed to tougher supervision and a higher regulatory capital requirement than banks that are not considered systemically important. Although it remains a concern, the risk of overheating has also receded as a result of the policy tightening evident in 2012.¹²

IV. DEVELOPMENT IMPACT AND STRATEGIC ALIGNMENT

A. Development Impact, Outcome, and Outputs

21. **Impact.** The impacts of the loans are (i) growth of the banking and leasing sectors; and (ii) greater access to banking credit and leasing services for underserved MSMEs in Mongolia. This will be reflected by an increase in loans and leases, as well as an increase in the ratio of banking sector credit to gross domestic product, and ratio of leasing sector credit to gross domestic product. Additionally, ADB will support broader finance sector development through financing XacLeasing in a country that has a very small nonbank sector.

¹¹ Standard & Poor's. 2013. *Banking Industry Country Risk Assessment: Mongolia*. New York.

¹² Moody's Investors Service. 2013. *Banking System Outlook: Mongolia*. New York.

22. **Outcome.** The outcome will be the growth and sustainability of XacBank's financial services and XacLeasing services to MSMEs in Mongolia. This will be measured by monitoring nonperforming loans and capital adequacy, and the increased volume of lending to MSME borrowers. A large number of new MSME borrowers are expected to be women. Although not being measured, providing financing to MSMEs will strengthen their role as an important source of employment, especially in underserved *ger* and rural areas. Moreover, funding these entities helps diversify the economy.

23. **Outputs.** The output of the loans is that XacBank's and XacLeasing's financial capacity to service MSMEs is expanded. XacBank and XacLeasing will provide financial services while ensuring that adequate investment is made in human resources and business processes.

B. Alignment with ADB Strategy and Operations

1. Consistency with Strategy 2020 and Country Strategy

24. Strategy 2020's¹³ focus on poverty reduction through private sector development and inclusive financial systems will be supported by TFG's emphasis on funding underserved segments of the Mongolian population. The Government of Mongolia considers that private sector development will be a thematic driver of change, and that ADB assistance is needed to strengthen financial markets to support long-term investment, innovation, and access to finance.¹⁴ ADB's strategy also provides that ADB will increase access to finance by strengthening financial intermediation through the banking industry. Access for MSMEs and the rural population to formal sources of credit is limited. ADB's finance sector assessment for Mongolia further concludes that broader and deeper financial intermediation is necessary for Mongolia to achieve sustainable, long-term growth.¹⁵ The finance sector assessment recommends the continued development of the finance sector and improvements in access to finance. The proposed loans are also consistent with the government's SME development program aimed at boosting SME capacity and job creation. The loans also complement the government's ongoing MSME lending programs through the commercial banks. These programs target specific sectors and types of enterprises that the government deems eligible, so many MSMEs continue to seek funding not available to them under these programs.

2. Consistency with Sector Strategy and Relevant ADB Operations

25. In 2008, ADB conducted an independent evaluation of ADB assistance to the finance sector.¹⁶ Based on this analysis, and in view of looming challenges and opportunities, it put forward recommendations for future operations. These included (i) considering nonsovereign equity investments in and loans to Mongolian banks by ADB to strengthen operational capacity; (ii) supporting rural finance by using banks to channel credit to meet the gap in the supply of rural finance in the country; (iii) providing longer-term loans to meet and promote the needs of SMEs; and (iv) supporting the development of nonbank and capital market sectors.

¹³ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

¹⁴ ADB. 2012. *Country Partnership Strategy: Mongolia, 2012–2016*. Manila.

¹⁵ ADB. 2010. *Mongolia: A Financial Sector Assessment*. Manila.

¹⁶ ADB. 2008. *Evaluation Study: Financial Sector in Mongolia – Transition to a Market Economy Built on Successful Financial Reforms*. Manila.

V. POLICY COMPLIANCE

A. Safeguards and Social Dimensions

26. The loans are classified as category “FI” for impacts on the environment, involuntary resettlement, and indigenous peoples. Subprojects classified as Category A for these criteria will not be financed under the loans. The potential impacts and risks associated with XacBank and XacLeasing’s existing and likely future portfolios, and their commitment and capacity for environmental and social management, have been assessed. Existing social and environmental management systems have been reviewed. In respect of loans and leases extended by using ADB funds, the companies will integrate and apply ADB’s prohibited investment activities list with its existing exclusion list; ensure compliance with applicable national laws and regulations, and with ADB’s Safeguard Policy Statement (2009). An enhanced environmental and social management system (ESMS) satisfactory to ADB will be a condition of first disbursement. The ESMS will require compliance with national labor laws and will include measures to comply with internationally recognized core labor standards, in accordance with ADB’s Social Protection Strategy (2001), including provisions prohibiting any discrimination against women in hiring and providing equal pay for equal work for men and women. The human resource policies of TFG companies are based on equal opportunities. XacBank also targets female customers as an important business segment, and the bank’s commercial policies and practices support equal opportunities for women in access to services and markets. XacBank commits to provide gender-sensitive outreach training to XacBank and XacLeasing staff on servicing women customers and borrowers. The borrowers’ reporting requirements to ADB include reporting on subloans by gender, and ADB will monitor progress in supporting female borrowers over the course of the loan. This transaction is classified SGE (some gender elements) under ADB’s guidelines on gender mainstreaming.¹⁷

B. Anticorruption Policy

27. TFG and XacBank were advised of ADB’s policy of implementing best international practice relating to combating corruption, money laundering, and the financing of terrorism. ADB will ensure that the investment documentation includes appropriate provisions prohibiting corruption, money laundering, and the financing of terrorism, and remedies for ADB in the event of noncompliance.

C. Investment Limitations

28. The proposed senior loans are within the medium-term, country, industry, group, and single investment exposure limits for nonsovereign investments.

D. Assurances

29. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),¹⁸ the Government of Mongolia’s no objection to the proposed assistance to TFG (for onlending to XacLeasing) and to XacBank will be obtained. ADB will enter into suitable finance documentation, in form and substance satisfactory to ADB, following approval of the proposed assistance by the ADB Board of Directors.

¹⁷ ADB. 2012. *Guidelines for Gender Mainstreaming Categories of ADB Projects*. Manila.

¹⁸ ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

VI. RECOMMENDATION

30. I am satisfied that the proposed senior loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve a senior loan of up to \$30,000,000 to XacBank and a senior loan of up to \$10,000,000 to TenGer Financial Group for Supporting Micro, Small, Medium-Sized Enterprises and Leasing Finance in Mongolia from ADB's ordinary capital resources, with such terms and conditions as are substantially in accordance with those set forth in this report, and as may be reported to the Board.

Takehiko Nakao
President

19 November 2013

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and/or Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impacts Growth of Mongolia's banking and leasing sectors</p> <p>Greater access to credit by MSMEs</p>		<p>World Bank World Development Indicators</p> <p>Leasing industry and government reports</p> <p>Bank of Mongolia annual reports</p> <p>World Bank Enterprise Surveys</p> <p>Bank of Mongolia annual reports</p>	<p>Assumption Bank of Mongolia gradually enhances risk-based supervision</p> <p>Risks Slow growth of capital markets in Mongolia</p> <p>Political instability affects growth of capital markets</p> <p>Economic volatility constrains banking sector and/or MSME development</p>
<p>Outcome Growth and sustainability of XacBank and XacLeasing's services to MSMEs</p>		<p>XacBank and XacLeasing reports</p> <p>Audited financial statements</p> <p>Development effectiveness monitoring reports</p>	<p>Assumptions The companies are supervised well by their board of directors and ensures good governance</p> <p>XacBank and XacLeasing maintain high standards for the banking and leasing sectors</p> <p>Continuing profitability of XacBank and XacLeasing</p> <p>Risks Volatility of mining sector</p> <p>Sustained depreciation of the local currency</p>
<p>Output XacBank's and XacLeasing's financial capacity to service MSMEs and leasing customers is expanded</p>		<p>XacBank and XacLeasing reports</p> <p>Audited financial statements</p> <p>Development effectiveness monitoring reports</p>	<p>Assumption Management carries out investment in human resources and business processes as planned</p> <p>Risks Business cycle risk</p> <p>Lower than expected loan and/or lease demand</p>

Design Summary	Performance Targets and/or Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Activities with Milestones 1. ADB provides senior loans to XacBank (of up to \$30 million) and to TFG (of up to \$10 million for onlending to XacLeasing) by the end of 2014 2. ADB executes loan facility agreement with TFG (by the end of the first quarter of 2014) 3. XacBank and XacLeasing provide funding to MSMEs (2014 onward) 4. Monitoring and annual review missions		Inputs ADB Senior loans totaling up to \$40 million	

ADB = Asian Development Bank, GDP = gross domestic product, MSMEs = micro, small, and medium-sized enterprises, TFG = TenGer Financial Group.

Source: Asian Development Bank.