



Mongolia: Senior Loan to Khan Bank for Supporting Micro, Small and Medium-Sized Enterprises

Project Name	Senior Loan to Khan Bank for Supporting Micro, Small and Medium-Sized Enterprises		
Project Number	47934-001		
Borrower/Company	KHAN BANK		
Country	Mongolia		
Location			
Approval Number	7410/3136		
Type or Modality of Assistance	7410	Loan	USD 40.00 million Committed
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth Regional integration		
Drivers of Change	Gender Equity and Mainstreaming Governance and capacity development Knowledge solutions Partnerships Private sector development		
Sector / Subsector	Finance - Small and medium enterprise finance and leasing		
Gender Equity and Mainstreaming	Some gender elements		
Responsible ADB Department	Private Sector Operations Department		
Responsible ADB Division	Portfolio Management Division, PSOD		
Responsible ADB Officer	Gunawardhena, Manohari		
Project Sponsor(s)			
Description	<p>A senior loan of up to \$40 million to Khan Bank (KB) to provide funding for MSMEs. MSMEs contribute 70 percent of GDP and employ half of the workforce in Mongolia. As such, they are important to the economic success of the country and to its efforts to diversify the economy. Being a large territory, Mongolia's geographical branch penetration is one of the lowest in the world at 0.67 branches per thousand square km making access to finance a challenge for MSME's. The proposed loan supports the government's policy to develop a competitive and vibrant MSME sector in Mongolia. KB remained as Mongolia's largest bank in terms of loans and deposits with market shares of 23% and 26%, respectively, as of YE2013. The bank has also maintained its leadership in distribution networks with 528 branches and 335ATMs as of YE2013. KB's loan portfolio is \$1.55 billion as of December 2013 and is distributed as per the following: personal loans 49%, trade 16%, construction 10%, Agriculture 3% and others 22%. The bank's total assets are \$2.9 billion YE 2013. The bank expects its loan portfolio to grow by 25-30% at the end of 2013 lowering to 22% in 2015, with specific growth rates of 30-40% for MSMEs. Net income grew by 35% from \$36.4 million in 2011 to \$60.4 million as of YE2013. NPL's of the bank were 1.5% as of YE2013. KB Bank is owned by Sawada Holdings Co. Ltd. (formerly H.S. Securities) 54.4%. Sawada Holdings Co. Ltd. is a Japan-based holding company engaged in securities, banking, commodities, real estate and venture capital. The company is listed on the Osaka Stock Exchange. Tavan Bogd Trade Co. Ltd 23.0%, Tavan Bogd Group is one of the largest private conglomerates of Mongolia with its twelve affiliated companies, engaged in retail and whole sale, travel and tourism, manufacturing and food production. D. Hulan, 13.3% and International Finance Corporation (IFC) 9.3%.</p>		
Objectives and Scope	<p>ADB assistance will lead to (i) increased contribution of MSMEs to gross domestic product; and (ii) increased access to credit by MSMEs in Mongolia. Growth of MSMEs in non-mineral-based resource sectors will help diversify and strengthen the resilience of the economy.</p>		

Linkage to Country/Regional Strategy	An independent evaluation of ADB's assistance to the financial sector was conducted in 2008. Based on the analysis conducted and future challenges and opportunities in the financial sector, recommendations were put forward for future operations. These included (i) considering equity investments and loans to strengthen the operational capacity of Mongolian banks; (ii) using banks to channel credit to address the gap in the supply of rural finance; (iii) providing longer-term loans to meet the needs of MSMEs; and (iv) supporting the development of nonbank and capital market sectors. The proposed assistance to Khan Bank is therefore consistent with the recommendations put forward in this evaluation.
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Safeguard Categories

Environment	FI
Involuntary Resettlement	FI
Indigenous Peoples	FI

Summary of Environmental and Social Aspects

Environmental Aspects	Classified FI environment
Involuntary Resettlement	Category C for involuntary resettlement
Indigenous Peoples	Category C for indigenous peoples safeguards
Stakeholder Communication, Participation, and Consultation	Khan Bank's environmental and social management system will include arrangements to comply with national labor laws and ADB's Social Protection Strategy to ensure adherence to internationally recognized core labor standards, including provisions prohibiting any discrimination against women in hiring and providing equal pay for equal work for men and women. The investment is classified under operations with some gender elements.

Timetable for assistance design, processing and implementation

Concept Clearance	21 Oct 2013
Due Diligence	
Credit Committee Meeting	19 May 2014
Approval	30 Jun 2014
Last PDS Update	20 Aug 2014

Project Page	https://www.adb.org/projects/47934-001/main
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