

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Mongolia	Project Title:	Khan Bank for Supporting Micro, Small, and Medium-Sized Enterprises in Mongolia
Lending/Financing Modality:	Senior Loan	Department/Division:	Private Sector Operations Department/ Private Sector Financial Institutions Division

### I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Targeting classification: General intervention

#### A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy

Khan Bank is a commercial bank in Mongolia with assets of about \$3.0 billion, with a strong strategic focus on micro, small, and medium-sized enterprises (MSMEs). The project is consistent with the country partnership strategy (CPS)<sup>a</sup> for Mongolia and with the government priorities of servicing the underserved segments of the Mongolian population. The CPS highlights that private sector development will be a thematic driver of change and that the Asian Development Bank (ADB) will strengthen financial markets by supporting long-term investment, innovation, and access to finance. The project will specifically address the CPS recommendation to improve access of MSMEs in underserved rural areas to formal sources of credit. ADB's financial sector assessment recommends the continued development of the financial sector and improvements in access to finance—so the proposed loan is in line with the recommendations.<sup>b</sup> It is also consistent with the Government of Mongolia's small and medium-sized enterprise (SME) development program targeting SME capacity development and job creation.

#### B. Results from the Poverty and Social Analysis during PPTA or Due Diligence

##### 1. Key poverty and social issues.

Mongolia has a small economy, with high reliance on the cyclical mining sector. Slowing growth in the People's Republic of China and recent high inflation have led to a slowdown in the Mongolian economy. Access to financial resources in the underserved rural areas of Mongolia is minimal. The banking sector is viewed as having an underdeveloped regulatory framework, and strict enforcement of regulatory requirements is lacking. MSMEs make up 98% of all enterprises in Mongolia, 75% of which are microenterprises. However, it is estimated that only 10% of about 37,000 SMEs have regular access to finance through banks, which sometimes have high interest rates and excessive collateral requirements.<sup>c</sup>

2. Beneficiaries. The proposed investment will expand Khan Bank's operations to reach and serve more MSME borrowers. Khan Bank's strategic directions include (i) targeted growth of its retail and business loans;<sup>d</sup> (ii) expansion of its branch network and additional ATMs and point of sales counters as these regions develop further; (iii) developing fee-based income through remittances, ATMs, and insurance partnerships; (iv) growth of the retail business by developing added products for leasing loans; and (v) expansion of its nonbanking business activities into providing custodial services and securities trading through a broader branch network.

The growth triggered by additional financing for MSMEs will result in (i) job creation; (ii) income generation for and underserved areas; and (iii) fostering of economic growth, social stability, and development of the private sector.

3. Impact channels. The existing MSME portfolio of Khan Bank is diversified in terms of sectors, comprising trade and commerce, construction, agriculture, and transportation loans. The proposed project will increase Khan Bank's capacity to serve MSMEs in these sectors outside Ulaanbaatar and even expand to MSMEs in other industries such as services and production or manufacturing—in line with the government focus and needs of the economy. In addition to the direct impacts pertaining to financial inclusion of MSMEs in the country, the proposed loan is expected to deepen their outreach to rural areas through expansion of branches and operations, thereby contributing to funding of private economic activities in underserved areas of Mongolia. Providing financing to MSMEs will strengthen their role as an important source of employment. Emphasizing lending based on MSME cash flows, expanding into more remote parts of the country, and providing them term finance will help stimulate and diversify the economy.

4. Other social and poverty issues. Not applicable.

5. Design features. The design and monitoring framework includes indicators and measures to support MSMEs growth.

## II. PARTICIPATION AND EMPOWERING THE POOR

1. Summarize the participatory approaches and the proposed project activities that strengthen inclusiveness and empowerment of the poor and vulnerable in project implementation.

Khan Bank has a focused approach to reach potential borrowers, and has since 2006 provided practical assistance to individuals and MSMEs through its Khan Bank Business Incubator Centers, to make business decisions as well as skill development programs (including training) in urban and rural areas. In addition, to provide guidance to MSMEs and borrowers to manage their financial resources efficiently, Khan Bank has an extensive outreach program to borrowers through its branches and staff. These approaches enable Khan Bank to strengthen continuously the achievement of financial inclusion for MSME borrowers, especially in significantly underserved regions of Mongolia.

2. If civil society has a specific role in the project, summarize the actions taken to ensure their participation. Not applicable.

3. Explain how the project ensures adequate participation of civil society organizations in project implementation. Not applicable.

4. What forms of civil society organization participation is envisaged during project implementation? Not applicable.

Information gathering and sharing  Consultation  Collaboration  Partnership

5. Will a project level participation plan be prepared to strengthen participation of civil society as interest holders for affected persons particularly the poor and vulnerable?

Yes  No

## III. GENDER AND DEVELOPMENT

Gender mainstreaming category: Some gender elements (SGE)

**A. Key issues.** Mongolia ranks high on the gender development index (0.727),<sup>e</sup> but persistent gender gaps remain. The Mongolia CPS, 2012–2016 reports that official unemployment of women in 2008 was 38% higher than that of men—a significant surge from 18% in 2004—and an estimated 54% of women are engaged in the informal sector, with limited access to finance. Khan Bank’s Environmental and Social Policy recognizes human rights and gender in its marketing and promotion strategy. Khan Bank’s Human Resources Operational Policy provides for equal rights and opportunities to its employees, and provides gender equality in all human resources activities. Some 67% of Khan Bank’s staff of 5,000 are women.

### B. Key actions

Gender action plan  Other actions or measures  No action or measure

Khan Bank commits to implement the following gender measures: (i) provide outreach training to Khan Bank staff on servicing MSMEs and borrowers; (ii) provide assistance, including training, to individual borrowers and MSMEs through Khan Bank’s Business Incubator Centre; and (iii) include in the annual report sex-disaggregated information.

## IV. ADDRESSING SOCIAL SAFEGUARD ISSUES

### A. Involuntary Resettlement

Safeguard Category:  A  B  C  FI

1. Key impacts. The proposed investment will not involve any involuntary land acquisition that would result in physical and economic displacement. Khan Bank has established a screening system as part of the ESMS to determine the potential for involuntary resettlement. Subprojects with land acquisition and resettlement requirements will be excluded from consideration for ADB financing.

2. Strategy to address the impacts. Khan Bank’s ESMS includes a screening system that contains identification of subprojects with resettlement impacts.

3. Plan or other Actions

Resettlement plan  Combined resettlement and indigenous peoples plan  
 Resettlement framework  Combined resettlement framework and indigenous peoples planning framework  
 Environmental and social management system arrangement  Social impact matrix  
 No action

<b>B. Indigenous Peoples</b>	<b>Safeguard Category:</b> <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI
1. Key impacts. Indigenous peoples are not expected to be directly affected by these investments. Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
2. Strategy to address the impacts. Khan Bank's ESMS includes a screening mechanism to identify at the application processing stage subprojects with potential impacts on indigenous peoples. No impacts on indigenous peoples are expected, as subprojects with indigenous peoples impacts will not be considered eligible under the ADB loan.	
3. Plan or other actions	
<input type="checkbox"/> Indigenous peoples plan	<input type="checkbox"/> Combined resettlement plan and indigenous peoples plan
<input type="checkbox"/> Indigenous peoples planning framework	<input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework
<input checked="" type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary
<input type="checkbox"/> Social impact matrix	
<input type="checkbox"/> No action	
<b>V. ADDRESSING OTHER SOCIAL RISKS</b>	
<b>A. Risks in the Labor Market</b>	
1. Relevance of the project for the country's or region's or sector's labor market. The proposed loan will result in direct and indirect employment through increased lending to the MSMEs, which may use the loan proceeds to expand operations or start new ventures. Khan Bank's social and environmental policy includes an exclusion checklist, which prohibits funding to MSMEs involved in production or activities involving harmful or exploitative forms of forced labor or child labor. L <input type="checkbox"/> unemployment L <input type="checkbox"/> underemployment L <input type="checkbox"/> retrenchment L <input type="checkbox"/> core labor standards	
2. Labor market impact. Compliance with local labor laws and relevant international labor covenants and agreements are included in Khan Bank's ESMS.	
<b>B. Affordability.</b> Not applicable	
<b>C. Communicable Diseases and Other Social Risks</b>	
1. Indicate the respective risks, if any, and rate the impact as high (H), medium (M), low (L), or not applicable (NA): <input type="checkbox"/> Communicable diseases. Not applicable <input type="checkbox"/> Human trafficking. Not applicable <input type="checkbox"/> Others (please specify) _____	
2. Describe the related risks of the project on people in project area. Not applicable	
<b>VI. MONITORING AND EVALUATION</b>	
1. Targets and indicators: The social indicators to be included for monitoring and reporting include (i) increase in number of MSME borrowers; (ii) increase in the number of MSME borrowers in rural areas; (iii) sex-disaggregated data on employment and operations of Khan Bank; (iv) status of compliance with national labor laws and core labor standards; and (v) percentage of grievances addressed (if any).	
2. Required human resources: The social officer of Khan Bank, as the focal point for social safeguards, will ensure effective implementation of the ESMS provisions, including reporting to ADB that the screening process was used to screen all applications for involuntary resettlement and indigenous peoples impacts, and that those applications with identified impacts have been excluded from ADB financing.	
3. Information in PAM: Not applicable	
4. Monitoring tools: Annual reports and extended annual review report.	

<sup>a</sup> ADB. 2012. *Country Partnership Strategy: Mongolia, 2012–2016*. Manila.

<sup>b</sup> ADB. 2010. *Mongolia: A Financial Sector Assessment*. Manila.

<sup>c</sup> 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.

<sup>d</sup> Business loans include MSME loans.

<sup>e</sup> ADB. 2012. *Country Partnership Strategy: Mongolia 2012-2016*. Manila