



Concept Paper

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Proposed Loan Mongolia: Banking Sector Rehabilitation and Financial Stability Strengthening Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 27 January 2017)

Currency unit	–	togrog (MNT)
MNT1.00	=	\$0.000402
\$1.00	=	MNT2481.89

ABBREVIATIONS

ADB	–	Asian Development Bank
ERP	–	Economic Recovery Plan
GDP	–	gross domestic product
IMF	–	International Monetary Fund
NPL	–	nonperforming loan
PBL	–	policy-based loan
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars unless otherwise stated.

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 51054-001	
Project Name	Banking Sector Rehabilitation and Financial Stability Strengthening Program	Department /Division	EARD/EAPF
Country Borrower	Mongolia Government of Mongolia	Executing Agency	Ministry of Finance
2. Sector		Subsector(s)	
✓ Finance	Finance sector development	ADB Financing (\$ million)	
			101.50
		Total	101.50
3. Strategic Agenda		Subcomponents	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change Information	
		Climate Change impact on the Project	Low
4. Drivers of Change		Components	
Governance and capacity development (GCD)	Institutional systems and political economy	Gender Equity and Mainstreaming	
		No gender elements (NGE)	✓
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG8		
6. Risk Categorization:		Complex	
7. Safeguard Categorization		Environment: C Involuntary Resettlement: C Indigenous Peoples: C	
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		101.50	
Sovereign Capacity development technical assistance: Financial Sector Development Partnership Special Fund		0.75	
Sovereign Capacity development technical assistance: Technical Assistance Special Fund		0.75	
Sovereign Program loan (Regular Loan): Ordinary capital resources		100.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		101.50	
9. Effective Development Cooperation			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

I. THE PROGRAM

A. Rationale

1. The Government of Mongolia requested financial assistance from the Asian Development Bank (ADB) in the form of a policy-based loan (PBL) to stabilize and restructure the banking industry, strengthen financial stability, and enhance competition among banks. The Banking Sector Rehabilitation and Financial Stability Strengthening Program (Program) is aligned with and supports the government's macroeconomic adjustment program¹ and was requested by the Minister of Finance in a letter dated 26 January 2017.²

2. **Development challenges.** Mongolia's economy, which is highly dependent on its mining industry and is therefore vulnerable to shocks, has deteriorated. Its mineral exports and fiscal revenues have been depressed by falling commodity prices and moderating growth in the People's Republic of China, which is Mongolia's largest trading partner. The country's credit rating was downgraded to Caa1 by Moody's in November 2016.³ Gross domestic product (GDP) growth declined to -1.6%,⁴ from 17.5% in 2011. The ratio of public debt to GDP, including the central bank's foreign liabilities, rose from 31.0% in 2010 to 77.4% in 2015, and the government estimates that it will have reached over 90% by the end of 2016. The 2016 supplementary budget, approved in September, projected a fiscal deficit of 18.0% of GDP, up from 7.9% in 2015.

3. Weakness in the macroeconomic situation has hurt the banking industry and is threatening its solvency. The nonperforming loan (NPL) ratio stood at 8.5% as of December 2016, against 3.8% in June 2013. This increases to 15.0% when adding past-due loans.⁵ The consolidated banking industry's total capital adequacy ratio of 17.9% as of the end of 2015 is overstated because weak oversight has allowed regulatory forbearance and the underreporting of risks, chiefly underreporting of NPLs as a result of lenient restructuring policies and non-compliance with international capital standards. The loan-loss provision covers only 44.8% of NPLs and past-due loans, and return on assets was only 0.7% for 2016.⁶ Banking weakness impairs financial intermediation, the extension of credit for job creation, and access to financial services. Slowing economic growth, combined with increases in the central bank's policy rate, has reduced loan growth.⁷ Empirical evidence supports strong links between finance sector development, economic growth, and poverty alleviation.⁸ Lessons from the 1997–1998 Asian financial crisis show that rapid resolution of NPLs is essential to strengthen credit flows and hasten economic recovery. Higher NPLs result in reduced credit-to-GDP ratios, lower growth, and increasing unemployment.⁹

4. **Binding constraints.** The finance sector suffers from three main concerns. First, the government does not have a framework for resolving the high level of NPLs that jeopardize banks' solvency. Stabilization efforts are further constrained by lack of an out-of-court corporate

¹ The government passed the Economic Recovery Plan on 24 November 2016.

² Letter from the Minister of Finance to Stephen Groff, Vice-President, Asian Development Bank.

³ Moody's Investors Service, Singapore, downgraded Mongolia's government long-term issuer and senior unsecured ratings from B3 to Caa1 on 18 November 2016.

⁴ The first 9 months of 2016 versus the same period in 2015, according to the National Statistics Office of Mongolia.

⁵ Total NPLs equal approximately \$422 million and NPLs plus past-due loans equal approximately \$743 million.

⁶ Approximately \$333 million of NPLs and past-due loans are not provisioned for.

⁷ The volume of loans has declined by 1% over the 2-year period through December 2016.

⁸ J. Zhuang et al. 2009. Financial Sector Development, Economic Growth, and Poverty Reduction: A Literature Review. *ADB Economics Working Paper Series*. No. 173. Manila: ADB.

⁹ N. Klein. 2013. Non-performing loans in CESEE: Determinants and impact on macroeconomic performance. *IMF Working Paper*. No. 13/72. Washington, DC: International Monetary Fund.

debt restructuring arrangement. Further, no road map to a bank rehabilitation framework is in place to facilitate bank recapitalization. Second, the framework for financial stability is not sufficiently robust to prevent possible future crises. The Financial Stability Council law does not fully address the mandate, membership, authority, tools, and powers needed. The capacity of banks to sustain shocks is impaired by nonconformance of capital adequacy and banking supervision rules with international standards. The industry's viability is impaired by weak supervisory oversight and regulatory forbearance practices by the Bank of Mongolia. Banks have been allowed to leniently reschedule past-due loans and NPLs. Further, the deposit insurance fund does not have backup funding to support possible claims. Third, banking competition and development are impaired. Weak governance and risk management practices and unclear industry direction pose impediments to the creation of a competitive environment that will help meet the private sector's needs and also attract human and financial capital. Government ownership of State Bank also creates governance and development issues.¹⁰ Regulations do not clearly support licensing and operation of foreign bank subsidiaries, impairing competition, access to credit, and transfer of best practices in risk management.

5. **Government plans and links to the country partnership strategy.** Following the June 2016 elections, the new government took actions stressing the urgency for fiscal adjustment and economic reform, and passed the economic recovery plan (ERP). As regards the finance sector, the ERP aims to manage sector governance, and legal and institutional reforms that include ensuring independence of the Bank of Mongolia, revising the foreign exchange law, revising the Financial Stability Council law, and preparing a finance sector development program through 2025. The ERP aims to promote foreign direct investment, job growth, and economic diversification. The program is aligned with the government's plan to restore macroeconomic stability. It is also closely aligned with the first pillar of ADB's upcoming country partnership strategy for Mongolia, which promotes economic growth and social stability.¹¹

6. **Development partner coordination.** The objectives of this program have been shared with the International Monetary Fund (IMF), the World Bank, and the Government of Japan through the Japan International Cooperation Agency. The program was well received since it will help stabilize and strengthen the financial system and form a basis for improving economic growth and the government's finances.

7. **Proposed financing modality.** A single-tranche, stand-alone PBL is proposed to help deal with the banks' overhang of NPLs by supporting the creation of an asset management company. ADB will not assume any risk from the NPLs, which will be managed independently under market practices. Recapitalization of private commercial banks is expected to be fully supported by their shareholders. The program combines dialogue with technical assistance (TA) in recognition of ADB's long-term engagement in developing Mongolia's finance sector.¹² The program is urgently needed to manage rising risks in banking and to prevent a crisis that could threaten economic growth and cause greater harm to the poor and vulnerable.

¹⁰ State Bank was established by the government from the assets of two failed banks in 2009 and then also assumed the assets of the failed Savings Bank in 2013; it is the 5th largest of 14 banks with 10% deposit share. Assets of the top five banks comprise 83% of total banking industry assets.

¹¹ ADB. 2017. *Country Partnership Strategy: Mongolia, 2017–2020 (in preparation)*. Manila.

¹² ADB. 2005. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Mongolia for the Financial Regulation and Governance Program*. Manila (Loan 2218-MON); ADB. 2009. *Technical Assistance to Mongolia for Policy and Institutional Support for Banking Sector Systemic Risk Management*. Manila (TA 7397-MON); ADB. 2009. *Technical Assistance for Deposit Insurance Establishment*. Manila (TA 7337-REG); ADB. 2010. *Grant Assistance to Mongolia for Promoting Inclusive Financial Services for the Poor*. Manila (Grant 9152-MON). ADB 2016. *Technical Assistance to Mongolia for Supporting Financial Sector Development and Stability*. Manila (TA 9180-MON).

B. Impact, Outcome, and Outputs

8. The impact will include a well-developed finance sector, a stable financial system that helps the poor and vulnerable, and a diversified economic structure not vulnerable to commodity price fluctuations. The outcome will be a strengthened and stable banking industry. Stabilizing the industry by dealing with the large overhang of NPLs is the first step to rehabilitation. This will be done by creating an asset management company and a corporate debt-restructuring framework. Failure to act will impact financial market intermediation, continue the gridlock in markets like property, detract from finance sector development, and heighten bank vulnerabilities. A second step will be to enhance financial stability and oversight to mitigate a potential recurrence of problems. Finally, governance, risk management, and competition must be strengthened to protect future sector development and attract foreign capital and expertise.

9. **Output 1: Framework for bank restructuring completed.** The output will (i) support a transparent road map to a banking industry rehabilitation program; (ii) facilitate this rehabilitation by supporting NPL resolution through creation of an asset management company; and (iii) back the creation of a corporate debt restructuring committee to deal with the large debt burden through an inter-creditor framework.

10. **Output 2: Financial stability enhanced.** The output will (i) support an amendment to the law that governs the operation of the Financial Stability Council, and expand its membership; (ii) support stronger oversight of the banking industry, i.e., supervision that does not encourage regulatory forbearance, and help amend regulations to bring banking practices into compliance with international standards; and (iii) expand the capacity of the Deposit Insurance Corporation of Mongolia for dealing with possible bank insolvencies.

11. **Output 3: Competition and governance strengthened.** This output will (i) back plans to improve the finance sector's capacity and governance to better meet the functional needs of individuals, corporations, and the government; (ii) support licensing and regulation of foreign bank subsidiaries, thereby expanding competition and transfer of best practices in risk management; and (iii) support the privatization of State Bank.

C. Investment and Financing Plan

12. The program is estimated to cost \$100 million, which will be drawn from ADB's ordinary capital resources. The PBL will have a 15-year term, a grace period of 3 years, and an annual interest rate determined in accordance with ADB's London interbank offered rate-based lending facility, plus a commitment charge of 0.15%.¹³ The loan size is determined considering the importance of supporting the ERP, the level of NPLs and past-due loans to resolve, and the country's overall development financing needs.

D. Indicative Implementation Arrangements

13. The executing agency will be the Ministry of Finance, and the Bank of Mongolia will be the implementing agency. The program period is July 2015 to April 2017 and includes a medium-term results framework. A follow-on program may be considered based on the progress of the reforms and the development financing needs. The loan proceeds will be withdrawn in line with ADB's *Loan Disbursement Handbook* (2015, as amended from time to time). The proceeds will be disbursed upon ADB's satisfaction that the agreed policy actions have been

¹³ ADB. 2016. Policy-based Lending. *Operations Manual*. OM D4. Manila.

completed.

II. TECHNICAL ASSISTANCE

14. The program will be supported by technical assistance (TA) grants in the amount of \$1,500,000, of which \$750,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-V) and \$750,000 will be financed on a grant basis by trust funds administered by ADB. TA consultants will be engaged through a firm and selected in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). TA resources will be disbursed in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). The TA will support creation of an asset management company, corporate sector revitalization, and privatization of State Bank.

III. DUE DILIGENCE REQUIRED

15. Due diligence will include a sector assessment; an assessment of risks to reforms arising from governance and financial management; and a poverty, social, and gender assessment. The program is expected to be category C for environment, involuntary resettlement, and indigenous peoples. A due diligence assessment will be conducted to confirm this. A matrix of potential impacts of each policy action and appropriate mitigation measures will be prepared, if needed.

IV. PROCESSING PLAN

A. Risk Categorization

16. The program is classified as complex because it exceeds \$50 million.

B. Resource Requirements

17. Processing will require: mission leader (3 months), economist (2 months), social sector specialist (1 month), legal counsel (2 months), and operations assistant (3 months).

C. Processing Schedule

18. The proposed processing schedule is in Table 2.

Table 2: Proposed Processing Schedule

Major Milestones	Expected Completion Date
Program concept paper approval	Week 4, February 2017
Management review meeting	March 2017
Loan negotiations	March 2017
Board consideration	April 2017

Source: Asian Development Bank estimates.

V. KEY ISSUES

19. On 19 February 2017, the IMF has reached staff-level agreement with the government on a three-year extended fund facility.

DESIGN AND MONITORING FRAMEWORK

Impacts the Program is Aligned with:			
The program is aligned with the government's Economic Recovery Plan, 2016 ^a and will support the government's plans for a well-developed finance sector and a stable financial system that helps the poor and vulnerable.			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Strengthened and stable banking industry	By 2018 Biennial banking industry loan growth rate is positive. (Baseline: -1.0% as of December 2016) Ratio of banking industry loans to GDP exceeds 53.0%. (Baseline: 50.3% as of December 2015)	Quarterly banking industry statistics BOM website	Price volatility of commodities increases and further impacts economic growth and finance sector solvency
Outputs 1. Framework for bank restructuring completed	By End April 2017: 1a. BOM initiated a road map to a bank rehabilitation program. (Baseline: no program) 1b1. The government established an interagency working group to support creation of the legal and institutional framework of an AMC. (Baseline: no working group) 1b2. Government submitted a draft law to Parliament for the establishment of an AMC that ensures: (i) proper governance, transparency, and operational independence and oversight; (ii) use of market-based principles and effective allocation of risks and recovery with banks; (iii) broad special authority to manage NPLs for the timely and enforceable transfer of asset ownership rights and the unfettered rights to dispose of assets; (iv) protection of management and employees performing their duties; (v) profit-maximizing goal and performance-based approach; (vi) commercial orientation and flexibility for private sector participation; (vii) a sunset clause; and (viii) resolving NPLs of commercial banks only. (Baseline: no law)	1a. Decree by BOM 1b1. Joint decree by BOM, Ministry of Finance, and Financial Regulatory Commission, 3 February 2017 1b2. (i) Final draft law on establishment of an AMC prepared by BOM and the Ministry of Finance; (ii) confirmation of the cabinet accepting submission of the draft law on the establishment of the AMC for parliamentary consideration.	Political instability impairs finance sector reform Political resistance and vested interests block reforms Economic pressures prevent the government from rationalizing the banking industry

2. Financial stability enhanced	<p>1c. With support from BOM, the Mongolian Bankers' Association established a Corporate Debt Restructuring Committee to (i) prepare and approve an out-of-court corporate debt restructuring framework and (ii) adopt an inter-creditor agreement to address corporate restructuring and debt burden. (Baseline: no committee)</p> <p>2a. BOM strengthened the Financial Stability Council's mandate, composition, authority, tools and powers by proposing amendments to the law. (Baseline: no amendments)</p> <p>2b. BOM issued revised asset classification regulation that integrates practices from Basel Committee for Banking Supervision capital adequacy accords. (Baseline: no regulation)</p> <p>2c. BOM restructured the banking supervision department to align it with best practices that include combining on-site and offsite functions into one allowing for a continuous supervisory process and providing support for implementing risk-based supervision. (Baseline: no restructuring)</p> <p>2d. The Ministry of Finance entered into a memorandum of understanding with DICOM to support providing back-up financing needs of DICOM for potential payout of deposit claims. (Baseline: no memorandum of understanding)</p>	<p>1c. (i) Request issued to BOM by the inter-agency working group supporting creation of the legal and institutional framework for an AMC and creation of a Corporate Debt Restructuring Committee by the Mongolian Bankers' Association; (ii) decree of BOM and resolution of the Mongolian Bankers' Association on establishment of the committee.</p> <p>2a. Minutes of meeting of the Financial Stability Council approving proposed amendments to the Law on the Financial Stability Council.</p> <p>2b. Joint decree by BOM and Ministry of Finance on 9 December 2016 with effective date of regulation on 20 December 2016</p> <p>2c. Decree by Bank of Mongolia governor on 27 December 2016</p> <p>2d. Memorandum of understanding signed between DICOM and the Ministry of Finance agreeing to prepare and sign a back-up financing facility by 31 August 2017</p>	
3. Competition and governance strengthened	<p>3a1. The Parliament approved the Economic Recovery Plan, which includes plans to prepare the "Mongolian financial market development – 2025 program" that will outline steps to improve the</p>	<p>3a1. Resolution of the State Great Khural on approval of the Economic Recovery Plan, 24 November 2016</p>	

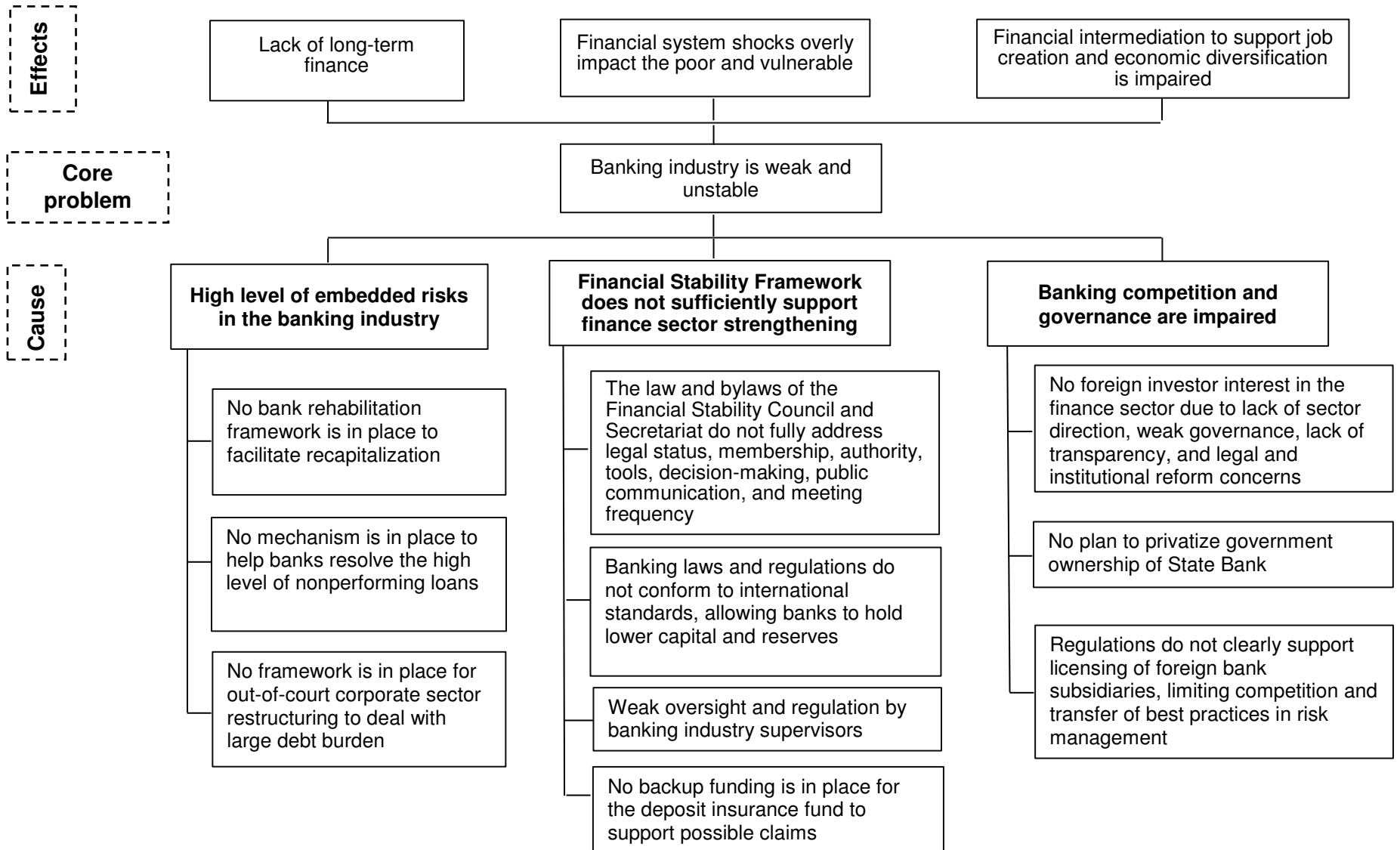
	<p>finance sector's capacity and governance to better meet the functional needs of individuals, corporations, and the government (2016 Baseline: no plan)</p> <p>3a2. BOM issued regulation to require banks to prepare IFRS-compliant financial statements effective from 1 January 2016 (Baseline: no regulation)</p> <p>3b. The government introduced a program to privatize State Bank by year-end 2019. (Baseline: no memorandum of understanding)</p> <p>3c. BOM clarified and solidified national treatment of foreign banking subsidiaries by amending regulations covering (i) licensing of banks and foreign subsidiaries; (ii) the scope of authorized banking activities, and (iii) defining paid-in capital and shareholdings. (Baseline: no amendments)</p>	<p>3a2. Joint decree by BOM and Ministry of Finance on 20 July 2015</p> <p>3b. (i) Memorandum of understanding signed between Ministry of Finance and DICOM to prepare a plan by 30 June 2017 supporting a program to privatize State Bank by year-end 2019; (ii) Parliament Resolution No. 70 to approve the 2015–2016 Guideline on privatization and restructuring – State-owned shares of State Bank LLC shall be privatized, 3 July 2015</p> <p>3c. Minutes of meeting of the Governing Board of BOM approving proposed amendments to regulations.</p>	
Key Activities with Milestones: not applicable.			
Inputs: Asian Development Bank: \$100 million policy-based loan; TASF-V: \$750,000 grant; trust funds administered by the Asian Development Bank: \$750,000 grant			
Assumptions for Partner Financing Not applicable.			

AMC = asset management company, BOM = Bank of Mongolia, DICOM = Deposit Insurance Corporation of Mongolia, IFRS = International Financial Reporting Standards, NPL = nonperforming loan, TASF = Technical Assistance Special Fund.

^a Government of Mongolia. 2016. *Economic Recovery Plan, 2016–2019*. Ulaanbaatar.

Source: Asian Development Bank.

PROBLEM TREE



INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Mongolia	Program Title:	Banking Sector Rehabilitation and Financial Stability Strengthening Program
Lending/Financing Modality:	Policy-based lending	Department/ Division:	East Asia Department/ Public Management, Finance and Regional Cooperation Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

The Banking Sector Rehabilitation and Financial Stability Strengthening Program is aligned with and supports the government's macroeconomic adjustment plans. The program will help complete a framework for bank restructuring, enhance financial stability, and introduce stronger competition and governance. The program is aligned with the government's plan to restore macroeconomic stability. It is also closely aligned with the first pillar of the upcoming country partnership strategy of the Asian Development Bank (ADB) for Mongolia (2017–2020), which promotes economic growth and social stability.^a

B. Poverty Targeting:

General Intervention Individual or Household (TI-H) Geographic (TI-G) Non-Income MDGs (TI-M1, M2, etc.)

The program will provide budget support to the government to help finance resolution of the banking industry's large overhang of nonperforming loans, which hurts the banks' solvency and overall economic growth. The policy-based lending is urgently needed to deal with the growing risks in the banking industry and to prevent a crisis that could threaten economic growth and cause more harm to the poor and vulnerable. All citizens of Mongolia will benefit from a stronger, better managed, and more resilient banking industry, which in turn will improve the environment for economic growth and job creation.

C. Poverty and Social Analysis

Key issues and potential beneficiaries. The current economic slowdown is affecting all citizens through such effects as dwindling jobs, reduced income, and weakened access to credit. These impacts are disproportionately hard on the poor and on small business. Successful implementation of the program and a stronger banking industry will benefit all citizens of the country, but in particular the unemployed, poor, and vulnerable. According to the latest household socioeconomic survey (2014), nationally more than half of the population (covering all income levels) has active loans from banks. Among those with loans, 40% obtained wage loans, 19% obtained herder's loans, 15% pension loans, 10% business loans, 9% mortgage loans, and 7% consumption loans. Access to credit is a key coping strategy, especially for the population in the lower quintiles—82% of the lowest quintile took loans almost exclusively to support household consumption (e.g., food, health, and education services, and other daily life needs).

Impact channels and expected systemic changes. Direct impacts through development of a stable banking industry with contained risks include (i) better access to credit for businesses to expand and therefore create employment, (ii) more income as a result of such improvements, (iii) and broader access to credit for individuals.

Focus of and resources allocated. ADB has had a steady presence in the Mongolian finance sector since 1991, and provided a number of technical assistance (TA) projects and loans. The poverty and social assessment for this program will draw from existing reports on and analyses of the Mongolian banking industry, current research on poverty, and consultations with key stakeholders. A national consultant (1 month) and staff resources will be used to prepare a summary of poverty reduction and social strategy (SPRSS).

Specific analysis for policy-based lending. The poverty and social assessment will focus on evaluating the current impacts of the economic crisis on the poor, and on access to banking services and credit for businesses and citizens. No investment activity is involved in the program. The anticipated environmental and social net benefits of a strengthened banking industry are positive. Due diligence will be conducted to prepare the SPRSS for the report and recommendation of the President.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this program?

The program will have positive impacts on women. Studies in Mongolia show that women are actively engaged in businesses, and various programs and loans have been implemented targeting individual women borrowers and women entrepreneurs. Banks' lending information also suggests that women are often more reliable and trustworthy borrowers for banks. A strengthened banking industry will benefit all citizens, including women borrowers.

2. Does the proposed program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?

Yes No – The policy-based loan is focused on strengthening the banking services for all stakeholders.

<p>3. Could the proposed program have an adverse impact on women and/or girls or widen gender inequality? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No A stronger banking industry will benefit all, including women and girls.</p> <p>4. Indicate the intended gender mainstreaming category: <input type="checkbox"/> GEN (gender equity) <input type="checkbox"/> EGM (effective gender mainstreaming) <input type="checkbox"/> SGE (some gender elements) <input checked="" type="checkbox"/> NGE (no gender elements)</p>
III. PARTICIPATION AND EMPOWERMENT
<p>1. Who are the main stakeholders of the program, including beneficiaries and negatively affected people? Identify how they will participate in the program design. – The support provided by the program will help the government acquire nonperforming loans (NPLs) from banks, which will allow banks to reduce risks and raise capital adequacy levels so that finance sector spending and standards are maintained. Main stakeholders include the Ministry of Finance, banks, small and medium-sized enterprises (SMEs) and other businesses, and groups such as the Employers Association of Mongolia and the SME Association.</p> <p>2. How can the program contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly the poor, vulnerable, and excluded groups? What issues in the program design require participation of the poor and excluded? – The policy-based loan will provide budget support to the Ministry of Finance to help reform the banking industry. The poverty and social assessment will conduct key informant and focus group discussions with stakeholders and the public, including the poor.</p> <p>3. What are the key, active, and relevant civil society organizations in the program area? What is the level of civil society organization participation in the project design? Consultation with research institutions. <input checked="" type="checkbox"/> Information generation and sharing <input checked="" type="checkbox"/> Consultation <input type="checkbox"/> Collaboration <input type="checkbox"/> Partnership</p> <p>4. Are there issues during program design for which participation of the poor and excluded is important? What are they and how shall they be addressed? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No. – Outreach discussions with the main stakeholders will be conducted to make a rapid assessment of the impacts of the current crisis on households and particularly the poor.</p>
IV. SOCIAL SAFEGUARDS
A. Involuntary Resettlement Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
<p>1. Does the program have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No – The program does not include land acquisition or civil works.</p> <p>2. What action plan is required to address involuntary resettlement as part of the project preparatory TA or due diligence process? <input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
<p>1. Does the program have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No – Existing banking industry programs cover all eligible citizens regardless of ethnicity.</p> <p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No – The program is direct budget support. All citizens of Mongolia will benefit and no adverse impact on indigenous peoples will be generated.</p> <p>3. Will the program require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No – No adverse impact on indigenous peoples will be generated.</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the project preparatory TA or due diligence process? <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social Impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
V. OTHER SOCIAL ISSUES AND RISKS
<p>1. What other social issues and risks should be considered in the program design? <input checked="" type="checkbox"/> Creating decent jobs and employment <input type="checkbox"/> Adhering to core labor standards <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability <input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability <input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____</p> <p>2. How are these additional social issues and risks going to be addressed in the program design? – They are addressed as part of the Economic Recovery Plan and by TA from ADB and the World Bank.</p>
VI. PROJECT PREPARATORY TECHNICAL ASSISTANCE OR DUE DILIGENCE RESOURCE REQUIREMENT
<p>1. Do the terms of reference for the project preparatory TA (or program assessments) contain key information needed to be gathered during project preparatory TA or the program assessment process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (v) other social risks. Are the relevant specialists identified? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No – A poverty and social analysis will be conducted and an SPRSS prepared.</p>

2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and a participation plan during project preparatory TA or the program assessments? – Staff resources, a specialist consultant, and support from the principal social development specialist of the Urban and Social Sectors Division.

^a ADB. 2017. *Country Partnership Strategy: Mongolia, 2017–2020 (in preparation)*. Manila.
Source: Asian Development Bank.