



## Mongolia: Value-Added Cashmere Production and Export Project

Project Name	Value-Added Cashmere Production and Export Project		
Project Number	51370-001		
Borrower/Company	Gobi Joint Stock Company		
Country	Mongolia		
Location	Nation-wide		
Approval Number	7563/3682		
Type of ADB Assistance / Amount	Ordinary capital resources	USD 10.00 million	Proposed
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth Regional integration		
Drivers of Change	Gender Equity and Mainstreaming Partnerships Private sector development		
Sector / Subsector	<b>Agriculture, natural resources and rural development</b> - Agro-industry, marketing, and trade		
Gender Equity and Mainstreaming	Effective gender mainstreaming		
Responsible ADB Department	Private Sector Operations Department		
Responsible ADB Division	Office of the Director General, PSOD		
Responsible ADB Officer	Jeong, Juhyun		
Project Sponsor(s)			
Description	<p>The project will support the expansion of Gobi's primary and secondary cashmere processing capacity. Gobi will increase its raw cashmere procurement capacity, ultimately benefitting herders, and the manufactured end-products will be sold domestically and exported to over 30 countries. The project is fully aligned with the Government of Mongolia's goals to enhance agricultural productivity, increase local value addition, diversify exports, and create jobs.</p>		
Objectives and Scope	<p>The agriculture sector in Mongolia is considered the key in diversifying the economy away from its heavy reliance on the mining sector. Mongolia has a natural competitive advantage in cashmere production with its climate and terrain extremely well suited for cashmere goats. Mongolia is second largest producer of raw cashmere after the People's Republic of China (PRC) and produces a third of the global supply of raw cashmere. Despite this high level of raw cashmere production, only 10% of raw cashmere is fully processed domestically. There is much room for additional value-add through secondary processing of cashmere domestically.</p> <p>Gobi is the largest cashmere manufacturer in Mongolia. As an integrated cashmere producer, Gobi manages its entire value chain from sourcing raw cashmere directly from herders to processing and manufacturing cashmere products at its primary and secondary processing facilities in Ulaanbaatar. The project will help Gobi expands its primary and secondary processing capacity, adding more value domestically and further integrating the cashmere value chain.</p>		

Linkage to Country/Regional Strategy The project is aligned with the ADB Midterm Review of Strategy 2020, which emphasizes the need to invest in agriculture to increase productivity and strengthen links with global value chains. The project is aligned with all three strategic pillars of the Mongolia country partnership strategy: (i) promoting economic and social stability, (ii) developing infrastructure for economic diversification, and (iii) strengthening environmental sustainability. The project is also aligned with the IED validation of the country partnership strategy and its emphasis to promote diversification of the economy with a focus on improving the productivity of agribusiness. As Gobi's exports reach the PRC, a DMC member, and non-DMC regional members (including Hong Kong, China, Japan, the Republic of Korea, Singapore, and Taipei, China), the project is aligned with ADB's operational plan for regional cooperation and integration, which highlights the importance of raising competitiveness in connected markets including through promoting and facilitating the participation in global and regional value chains by small and medium-sized enterprises and smallholder farmers.

The project is aligned with ADB's operational plan for agriculture and natural resources, 2015 to 2020, which recommends greater private sector agribusiness investment by ADB through working with strong agribusiness sponsors adopting best practices. The project will complement ADB's sovereign assistance program in Mongolia which aims to increase the value addition of the country's rich yet underutilized livestock and other agricultural resources through (i) value chain investments by agro-enterprises and cooperatives, (ii) capacity strengthening of primary producers and processors, (iii) improvement of marketing and technical capacity of agroenterprises and cooperatives, and (iv) development of Mongolian product brand(s). The project will also benefit from and complement the completed sovereign project that improved the livelihood of herders by ensuring sustainable pasture management in Bayanhongor aimag, a region where Gobi has extensive raw cashmere procurement activities.

### Safeguard Categories

Environment	B
Involuntary Resettlement	C
Indigenous Peoples	C

### Summary of Environmental and Social Aspects

Environmental Aspects In compliance with ADB SPS requirements for General Corporate Finance lending modalities, a Corporate Audit of the company's environmental and social management system (ESMS) has been undertaken as well as a Compliance Audit of existing facilities. Compliance with national, international and ADB standards were assessed, and where any non-compliance was identified, a Corrective Action Plan (CAP) was prepared and agreed with the Gobi' management team. The plan includes necessary remedial actions, budget and resources, timeline and responsibilities for resolution of some partial compliance issues. No issues of non-compliance were identified.

Involuntary Resettlement The company holds ownership rights to the lands below its main factory. The areas are used for offices, factories, and other facilities of the company, and has no residents. The project will also include the construction of two facilities. The location of the new primary processing facility is yet to be finalized. The land area for the new primary processing factory is expected to be 7.5 hectares and likely to be located in an industrial area in Sergelen soum, Tuv aimag. Gobi plans to build a new secondary processing facility in Ulaanbaatar on industrial land that is owned by Gobi, adjacent to its current factory. The design is being finalized but the new facility will include sewing, weaving, and knitting operations as well as a warehouse. The proposed project is not expected to have any impacts on involuntary resettlement.

Indigenous Peoples There are no indigenous peoples in locations of Gobi factory sites.

Stakeholder Communication, Participation, and Consultation

### Timetable for assistance design, processing and implementation

Concept Clearance	30 Jan 2018
Due Diligence	
Credit Committee Meeting	11 Jul 2018 to 11 Jul 2018
Approval	27 Jul 2018
Last PDS Update	08 May 2018

Project Page <https://www.adb.org/projects/51370-001/main>

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