



FAST Report

Project Number: 51370-001
July 2018

Loan Gobi Joint Stock Company Value-Added Cashmere Production and Export Project (Mongolia)

This is the abbreviated version of the document that excludes commercially sensitive and confidential business information that is subject to exceptions to disclosure set forth in ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 2 July 2018)

Currency unit	–	togrog (MNT)
MNT1.00	=	\$0.000406
\$1.00	=	MNT2,465.1

ABBREVIATIONS

ADB	–	Asian Development Bank
CAP	–	corrective action plan
CEO	–	chief executive officer
ESMS	–	environmental and social management system
FAST	–	Faster Approach to Small Nonsovereign Transactions
GDP	–	gross domestic product
PRC	–	People's Republic of China
TA	–	technical assistance
tpa	–	ton per annum
US	–	United States

NOTE

In this report, "\$" refers to United States dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 51370-001	
Project Name	Value-Added Cashmere Production and Export Project	Department /Division	PSOD/OPSD
Country	Mongolia		
Borrower	Gobi Joint Stock Company		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Agriculture, natural resources and rural development	Agro-industry, marketing, and trade		9.00
		Total	9.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Medium
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns	ADB Financing	
Regional integration (RCI)	Pillar 2: Trade and investment	Adaptation (\$ million)	0.56
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Partnerships (PAR)	Bilateral institutions (not client government)	Effective gender mainstreaming (EGM)	✓
Private sector development (PSD)	Promotion of private sector investment		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Rural	Medium
Household Targeting	No	Urban	Medium
SDG Targeting	Yes		
SDG Goals	SDG2, SDG5, SDG8, SDG9		
6. Nonsovereign Operation Risk Rating			
Obligor Name		Obligor Risk Rating	Facility Risk Rating
Gobi Joint Stock Company			
7. Safeguard Categorization	Environment: B	Involuntary Resettlement: C	Indigenous Peoples: C
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		9.00	
Nonsovereign LIBOR Based Loan (Regular Loan): Ordinary capital resources		9.00	
Cofinancing		9.00	
Bilateral Institutions (Non ADB Administered)		9.00	
Others		0.00	
Others^a		13.40	
Total		31.40	

^a Derived by deducting ADB financing and Cofinancing from Total Project Cost.

I. INTRODUCTION

1. This is an eligible transaction under the Faster Approach to Small Nonsovereign Transactions (FAST) framework.¹ The transaction involves a loan of up to \$9,000,000 to Gobi Joint Stock Company for the Value-Added Cashmere Production and Export Project in Mongolia.

2. The project will support the expansion of Gobi's cashmere processing capacity. Gobi will increase its raw cashmere procurement capacity, ultimately benefiting 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.

II. THE PROJECT

A. Project Identification and Description

1. Project Identification

3. **Importance of agriculture and animal husbandry in Mongolia.** The agriculture sector is the backbone of the Mongolian economy. In 2017, agriculture accounted for 12% of Mongolia's gross domestic product (GDP) and employed 30% of the country's workforce.² The agriculture sector is also considered the key in diversifying the economy away from its heavy reliance on the mining sector. Agricultural products, accounting for 8% of total exports in terms of value in 2017, are the second largest export item after mineral products (footnote 2). Within the agriculture sector, pastoral animal husbandry accounts for more than two-thirds of the country's agricultural outputs. One-third of Mongolia's population live in rural areas and their livelihoods are highly dependent on animal husbandry, with 78% of rural households owning livestock (footnote 2).

4. **Lack of local processing capability.** Mongolia's agriculture is largely concentrated on primary production and basic processing. It foregoes significant value addition because of limited domestic processing capacity, and the country exports a substantial portion of its agricultural products after primary processing. Raw materials and semi-processed goods accounted for over 76% of Mongolia's agricultural exports in 2017. According to the Ministry of Food, Agriculture and Light Industry, full end processing of agricultural raw materials is estimated to increase the current agricultural output value by at least three times.³

5. **Cashmere industry development.** Mongolia has a natural competitive advantage in cashmere production with its climate and terrain extremely well suited for cashmere goats. Mongolia produces one-third of the global supply of raw cashmere.⁴ Cashmere is one of Mongolia's major agricultural commodities and the main source of livelihood for Mongolian herders. Despite this high level of raw cashmere production, only 10% of raw cashmere is fully processed domestically. Exports of semi-processed cashmere—primarily to the People's Republic of China (PRC)—account for 90% of Mongolia's raw cashmere (footnote 4). Despite the development of the Mongolian cashmere processing industry in the past decade, considerable potential value addition through secondary processing remains uncaptured.

¹ Asian Development Bank (ADB). 2015. *Faster Approach to Small Nonsovereign Transactions*. Manila.

² Government of Mongolia, National Statistics Office. Mongolian Statistical Information Service. <http://www.1212.mn> (accessed 3 April 2018).

³ Government of Mongolia, Ministry of Food, Agriculture and Light Industry. <http://mofa.gov.mn/exp/blog/7/3#>.

⁴ Sector Overview (accessible from the list of linked documents in Appendix 2).

6. **Economic and export diversification.** Mongolia's economy is heavily dependent on its mining sector, which accounts for 20% of GDP and 80% of exports.⁵ However, the mining sector depends on foreign direct investment inflows and external demand for its output. This causes the Mongolian economy to be highly vulnerable to external shocks stemming from swings in international commodity prices and the economic cycles of major trading partners, particularly the PRC. The mining sector, despite its significant share of GDP and exports, contributes to less than 4% of total employment. The agriculture sector is a pivotal sector in that its development translates more directly into improved livelihoods for vulnerable Mongolians than mining. As cashmere exports amount to almost 40% of Mongolia's non-mineral exports (footnote 5), the development of a value-added cashmere industry is a key element in Mongolia's economic and export diversification away from the mining sector.

7. **Government policy alignment.** The Government of Mongolia has prioritized the development of the cashmere industry. The government's National Production Program 2016-2020 aims to increase the share of value-added products in the national GDP and boost the production of goods for export.⁶ The program also addresses the supply chain development of raw materials, including cashmere. In February 2018, the government renewed its commitment to support the cashmere industry by launching a 4-year Cashmere Program that will support domestic production of cashmere end products and technological innovation in the industry.⁷ This program will continue financial support to cashmere producers as well, partly through concessional loans for raw cashmere procurement. The government's goal in supporting the cashmere industry is to increase export income and create new jobs.

8. **Project selection.** 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.⁸ Gobi designs, manufactures, markets, and sells its own branded products domestically through its domestic branches and internationally through its international branches, franchise stores, and online shop. It also conducts original design manufacturing for international brands.⁹ The project team identified Gobi as a suitable candidate for the Asian Development Bank (ADB) to support given the company's strong track record, export orientation, and potential to create jobs and positively impact herders through its scale. Gobi is a participating enterprise of ADB's Agriculture and Rural Development Project.¹⁰

2. Project Design

9. The project will support Gobi's \$31.4 million investment plan during 2018–2019 by financing primary and secondary cashmere processing expansion.

⁵ Government of Mongolia, National Statistics Office. Mongolian Statistical Information Service. <http://www.1212.mn> (accessed 3 April 2018).

⁶ Government of Mongolia. 2016. *Action Program of the Government of Mongolia, 2016–2020*. Ulaanbaatar.

⁷ *Montsame*. 2018. Cabinet Adopts Program to Boost Cashmere Industry. 7 February.

⁸ Primary processing refers to raw cashmere being processed to dehaired cashmere; secondary processing refers to dehaired cashmere being processed to cashmere garment end products.

⁹ Manufacturing for original design manufacturing clients and their design specifications helps Gobi maintain international quality standards and track design and fashion trends for its own brands.

¹⁰ As part of the ADB sovereign program, Gobi received a MNT6 billion loan that was onlent by the Trade and Development Bank of Mongolia. ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loans for Additional Financing and Administration of Technical Assistance Grant to Mongolia for the Agriculture and Rural Development Project*. Manila.

10. **Higher local value addition.** The project will help Gobi develop primary and secondary processing capacity, adding more value in the domestic cashmere market and further integrating the cashmere value chain. Gobi plans to expand its primary cashmere processing capacity from 750 tons per annum (tpa) to 2,000 tpa by building a new primary processing and storage facility. The location of the new primary processing facility is yet to be finalized but is planned to be in Tuv province,¹¹ subject to government approval. An estimated 200 workers from the vicinity, where the poverty rate is significantly higher than in Ulaanbaatar,¹² will be hired to work in the factory. For its secondary processing capacity, Gobi plans to increase its spinning capacity from 350 tpa to 700 tpa and sewing capacity from 100,000 to 250,000 pieces per annum by purchasing equipment and building a new secondary processing facility adjacent to its current facility in Ulaanbaatar.

11. **Improved rural livelihoods.** The increase in primary processing and storage capacity will allow Gobi to procure more raw cashmere from herders. Gobi procures raw cashmere directly and indirectly from herders. During the raw cashmere production season (March–June of each year), Gobi deploys its procurement team across Mongolia to inspect and purchase raw cashmere directly from herders. Gobi also purchases raw cashmere at its factory from intermediaries. About 60% of Gobi's raw cashmere procurement is from its procurement team and 40% is received at its factory from intermediaries. Gobi's procurement team directly procured 108 tons of raw cashmere from 437 herders in 2017. Gobi plans to increase the share of raw cashmere procurement from its procurement team and direct procurement from herders (to at least 180 tons from 650 herders by 2022) to gain stronger control over its raw cashmere quality. Herders benefit from increased supply to Gobi, as Gobi provides a stable source of offtake for the communities from which it procures, unlike PRC traders whose procurement is more volatile depending on PRC market demand and regulation. Herders ultimately benefit, as they are able to increase their productivity and produce higher-quality cashmere, which results in higher income. Gobi also provides basic extension services to certain herders in the form of provision of goat blankets and cashmere-collecting sacks. Additionally, as Gobi intends to locate its new primary processing facility outside of Ulaanbaatar, Gobi will directly contribute to the local economy by employing staff from the local community and increasing procurement of raw cashmere from the vicinity.

12. **Export diversification.** The majority (68%) of Gobi customers are based outside of Mongolia. While 60% of Gobi's sales are domestic, almost half of domestic sales are to foreign tourists, and 40% of Gobi's sales are exports. In addition to its 10 retail stores in Mongolia, Gobi has 50 franchise stores and 5 branch stores operating in 34 cities across 13 countries. Gobi also produces finished goods for 211 companies from 32 countries in accordance with the companies' design specifications. Gobi's export sales from its international branch stores and online channels are a relatively new development: its first international branch store opened in Berlin in November 2016 and its online store started in February 2017. As Gobi's midterm strategy is to expand its international sales, it will give priority to marketing and selling its own-branded products abroad through its international branches, franchise stores, and online channel.

13. In addition, ADB is exploring complementing the project with support from an ongoing technical assistance (TA) that will help develop a corporate sustainability plan for Gobi to ensure that its operations across the value chain are environmentally sustainable, productive, and resilient.¹³

¹¹ The tentative location is 65 kilometers south of Ulaanbaatar and 3.5 kilometers from Zuunmod, the provincial center.

¹² The poverty rate in Sergelen district and the surrounding rural areas was estimated at 32.3%–38.0% in 2016, while the poverty rate in Ulaanbaatar was estimated at 24.8% by the National Statistics Office and the World Bank.

¹³ 2016. *Technical Assistance for Scaling Up Private Sector Participation and Use of Market-Based Approaches for Environmental Management*. Manila.

3. Borrower

14. The borrower is Gobi, a joint stock company incorporated in Mongolia and publicly listed on the Mongolian Stock Exchange. Gobi is a vertically integrated manufacturer and the largest cashmere garment manufacturer in Mongolia. Gobi was founded as a state-owned enterprise in 1981 with technical and financial support from the Government of Japan and was privatized in 1993. Gobi procures raw cashmere, conducts primary and secondary processing in its own plants, and sells end products such as cashmere sweaters, coats, and scarfs to domestic and foreign customers. As one of the leading non-mining exporters of Mongolia, Gobi currently employs over 1,700 people (more than two-thirds of whom are women), and operates 10 stores in Mongolia, and 50 franchise stores and 5 branch stores overseas.

15. Gobi's management team consists of specialists with substantial industry knowledge and experience. They have broad experience in finance, manufacturing, and marketing and sales. Baatarsaikhan Tsagaach, the chief executive officer (CEO) of Gobi and the founder and president of Tavan Bogd Group, the second largest conglomerate in Mongolia, has over 25 years of management experience.

16. Gobi's current major shareholders are Hide Inter LLC (with 34.0% ownership), FCI LLC (28.6%), and Tavan Bogd Trade LLC (21.5%). Hide Inter is a Japanese investment firm owned by Hideo Sawada (the president of Skymark Airlines Inc. and H.I.S. Co., Ltd., and the chairperson of Khan Bank) and his spouse, Mayumi Sawada. FCI is fully owned by Tavan Bogd Trade. Tavan Bogd Trade is Gobi's parent and ultimate holding company, with 50.1% direct and indirect shareholdings. Tavan Bogd Trade is owned by Baatarsaikhan Tsagaach (60% share) along with his spouse, Khulan Dashdavaa (20%), and his three siblings (20%). Tavan Bogd Trade and its subsidiaries (Tavan Bogd Group) is one of Mongolia's largest conglomerates with a business portfolio spanning multiple industries including trading, manufacturing, importing and wholesaling, hospitality and tourism, and banking. Established in 1995, Tavan Bogd Group has 15 subsidiary companies and 4 affiliated businesses, employing over 10,000 people. Baatarsaikhan Tsagaach is Gobi's ultimate controlling party.

17. Integrity due diligence was conducted.¹⁴ No significant or potentially significant integrity risks were identified. Tax integrity due diligence was not required.

B. Development Impacts, Outcome, and Outputs

18. **Impacts.** The project is aligned with the following impacts and consistent with key objectives of the Action Program of the Government of Mongolia, 2016-2020: (i) a sustainable economy based on diversified domestic production developed by (a) creating an integrated system of production, transportation, processing, and supply of livestock-originated raw materials; and (b) supporting foreign and domestic investments; and (ii) livestock farming production increased and its economic turnover improved, and advanced technology and innovation introduced.¹⁵

19. **Outcome.** The project will have the following outcome: rural livelihoods from a high-value, export-oriented agribusiness value chain increased.

¹⁴ ADB. 2003. *Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism*. Manila.

¹⁵ Government of Mongolia. 2016. *Action Program of the Government of Mongolia, 2016–2020*. Ulaanbaatar.

20. **Outputs.** The outputs are (i) secondary cashmere processing operations in Ulaanbaatar expanded and (ii) primary cashmere processing operations in rural Mongolia established.

C. Alignment with ADB Strategy and Operations

21. **Consistency with ADB strategy and country strategy.** The project is aligned with ADB's Midterm Review of Strategy 2020, which emphasizes the need to invest in agriculture to increase productivity and strengthen links with global value chains.¹⁶ The project is aligned with all three strategic pillars of ADB's country partnership strategy for Mongolia, 2017–2020: (i) promoting economic and social stability, (ii) developing infrastructure for economic diversification, and (iii) strengthening environmental sustainability.¹⁷ The project is also aligned with ADB's Independent Evaluation Department's validation of the country partnership strategy and its emphasis to promote diversification of the economy with a focus on improving the productivity of agribusinesses.¹⁸ The project is aligned with ADB's operational plan for regional cooperation and integration, as it supports greater regional agribusiness value chains and greater inclusion of smallholders into value chains.¹⁹ The support is expected to increase the number of smallholders supplying Gobi as well as increase the volume they supply. Gobi's exports to a number of economies across the region will increase (e.g., Hong Kong, China; Japan; the PRC; the Republic of Korea; Singapore; and Taipei, China) and will provide additional sales to Gobi's clients in these economies. Further, Gobi will make equipment purchases for the project from companies based in the region, including those based in the PRC and Japan. ADB's financing is expected to further attract capital and partnerships from across the region.

22. **Consistency with sector strategy and relevant ADB operations.** The project is aligned with ADB's operational plan for agriculture and natural resources, 2015–2020, which recommends greater private sector agribusiness investment by ADB through working with strong agribusiness sponsors adopting best practices.²⁰ 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 agro-enterprises and cooperatives, and (iv) development of Mongolian product brands.²¹ The project will also benefit from and complement the completed sovereign project that improved the livelihood of herders by ensuring sustainable pasture management in Bayankhongor province, a region where Gobi has extensive raw cashmere procurement activities.²²

D. Project Cost and Financing Plan

¹⁶ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

¹⁷ ADB. 2017. *Country Partnership Strategy: Mongolia, 2017–2020—Sustaining Inclusive Growth in a Period of Economic Difficulty*. Manila.

¹⁸ Independent Evaluation Department. 2017. *Country Partnership Strategy: Mongolia, 2012–2016—Final Review Validation*. Manila. p. 33.

¹⁹ ADB. 2016. *Operational Plan for Regional Cooperation and Integration, 2016–2020: Promoting Connectivity, Competitiveness, Regional Public Goods, and Collective Action for Asia and the Pacific*. Manila.

²⁰ ADB. 2015. *Operational Plan for Agriculture and Natural Resources: Promoting Sustainable Food Security in Asia and the Pacific in 2015–2020*. Manila.

²¹ ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loans for Additional Financing and Administration of Technical Assistance Grant to Mongolia for the Agriculture and Rural Development Project*. Manila.

²² ADB. 2016. *Implementation Completion Memorandum: Grant to Mongolia for the Establishment of Climate-Resilient Rural Livelihoods Project*. Manila.

[Redacted]

E. Implementation Arrangements

23. Table 3 summarizes the implementation arrangements.²³

Table 3: Summary of Implementation Arrangements

Aspects	Arrangements
Regulatory framework	Gobi Joint Stock Company is subject to the general laws regulating private sector enterprises in Mongolia, and benefits from incentives to the cashmere and light manufacturing sector. Gobi is subject to international trade laws, including import duties.
Management	Gobi has a management team led by Baatarsaikhan Tsagaach, chief executive officer, who is also the president of Tavan Bogd Group, Gobi's parent company. He is supported by eight directors in charge of each of the major business functions.
Implementation period	June 2018–December 2019. Gobi plans to complete primary and secondary processing expansions by 2019.
Construction arrangements	[Redacted]
Operations arrangements	The project will rely on Gobi, which already operates similar facilities and equipment, for successful operation and maintenance. Gobi procures raw cashmere directly and indirectly from herders. Gobi plans to continue to increase the share of raw cashmere procurement from its procurement team to gain higher control over its raw cashmere quality. The entire manufacturing process, along with the maintenance and quality control units, are directly managed by Gobi's chief operating officer. Gobi has quality control managers who, at each stage of primary and secondary processing, oversee quality and make corrections on the spot. Gobi's technical management division is responsible for the maintenance and repair of the equipment present at the factory. The domestic sales department handles marketing and sales in the domestic market and the international sales department handles marketing and sales for Gobi's exports.
Performance monitoring	Gobi will report quarterly on financial and operational key performance indicators, and annually on safeguard and development indicators (i.e., output and outcome targets).

Sources: Asian Development Bank and Gobi Joint Stock Company.

F. Projected Financial and Economic Performance

[Redacted]

G. Unique Features

24. This project will support an internationally competitive and export-oriented business model for higher local value addition. Gobi is an inclusive business because it offers sustainable livelihoods and employment opportunities to poor Mongolians, particularly women. It is ADB's first nonsovereign project in the agribusiness sector in Mongolia.

III. THE ADB ASSISTANCE

A. The Assistance

25. ADB will extend a loan of up to \$9 million to Gobi. The proposed loan tenor is 7 years with a 2-year grace period. The parallel loan of up to \$9 million to Gobi will have a tenor up to 7 years, including a grace period of up to 4 years. The main terms and conditions of ADB's proposed loan have been agreed with Gobi.

²³ Details of Implementation Arrangements (accessible from the list of linked documents in Appendix 2).

B. Value Added by ADB Assistance

26. ADB assistance will add value in three areas:
- (i) **Safeguards, gender, and sustainability best practices.** ADB will help Gobi develop a robust environmental and social management plan following the best international safeguard practices, including climate adaptation measures and a gender action plan, and will monitor the company's progress during project implementation. Also, the potential TA that ADB is exploring will help Gobi develop and implement a corporate sustainability plan (para. 13).
 - (ii) **Diversified funding base.** Gobi has primarily financed its growth through equity and loans from local commercial banks. ADB's financing will give Gobi's business a valued stamp of approval to further attract long-term capital and partnerships from international sources. The cofinancing is an example of how ADB's financing has mobilized another international lender.
 - (iii) **Long-term financing.** ADB will provide long-term debt, which is not readily available in Mongolia. ADB is in a unique position to offer such financing because of its understanding of agribusiness (specifically the cashmere industry) in Mongolia through past and ongoing sovereign projects.

C. Risks

[Redacted]

IV. POLICY COMPLIANCE

A. Safeguards and Social Dimensions

27. ADB has categorized the investment in compliance with ADB's Safeguard Policy Statement (2009) as follows: environment (category B), involuntary resettlement (category C), and indigenous peoples (category C).²⁴

28. ADB has undertaken due diligence and reviewed the potential environmental and social impacts of the project and the measures to avoid, minimize, mitigate, and compensate for the adverse impacts in the safeguard reports and plans. The environmental and social measures and the institutional capacity and commitment of Gobi to manage the project's social and environmental impacts are deemed adequate. In compliance with ADB's Safeguard Policy Statement requirements for general corporate finance, 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 noncompliance was identified, corrective actions were prepared and agreed with Gobi, and included in the corrective action plan (CAP). The CAP includes necessary remedial actions, budget and resources, and timelines and responsibilities for resolution of partial compliance issues. No issues of noncompliance were identified.

29. Gobi is required to enhance its existing management system into a compliant ESMS, incorporating the CAP. The CAP recommends employing an additional staff member to effectively carry out environmental monitoring and reporting tasks. The CAP also recommends minor improvements to occupational health and safety management. Gobi will adopt the enhanced ESMS satisfactory to ADB before ADB's first fund disbursement. Other operational improvements will be enacted during 2019. ADB will closely monitor Gobi's ESMS and CAP implementation.

²⁴ ADB. [Safeguard Categories](#).

30. The ESMS will be used to screen and assess activities related to Gobi's expansion. There are limited environmental impacts from the purchase of new machinery for the existing factories. Potential environmental impacts during the construction and operation of new facilities include contaminated wastewater discharges; discharges to air; generation of solid waste; occupational and community health and safety risks; and temporary construction impacts such as noise, vibration, and traffic. The ESMS will set out the processes and procedures to ensure compliance with national laws, ADB's Safeguard Policy Statement, and other social requirements. Initial environmental examinations, environmental management plans, environmental and social compliance audit reports, and other safeguard documents will be prepared by Gobi.

31. Gobi also works directly with herders to improve cashmere production in the supply chain. The company conducts training on goat raising and animal husbandry, resulting in more effective and sustainable farming practices from its suppliers. Countrywide issues related to goat raising, including impacts of extreme weather events and pasture land management, are being addressed by the Government of Mongolia, partially through ADB sovereign loans, grants, and TA.²⁵ Potential climate risks to new factory construction will be addressed under ESMS procedures, including considering flood and permafrost impacts during the design phase.

32. Gobi will comply with national labor laws and, pursuant to ADB's Social Protection Strategy (2001), will take measures to comply with the internationally recognized core labor standards.²⁶ Gobi will report regularly to ADB on (i) its compliance with such laws and (ii) the measures taken. Information disclosure and consultation with affected people will be conducted in accordance with ADB requirements.²⁷

33. The project is categorized as effective gender mainstreaming. Following ADB's Policy on Gender and Development (1998), Gobi has incorporated measures to promote gender equality and/or women's empowerment in its business activities. Gobi commits to implementing a gender action plan.²⁸ Gobi will assign capable staff to conduct monitoring of labor issues and implementation of the gender action plan; this monitoring will be reflected in the annual environmental and social monitoring report submitted to ADB.

B. Anticorruption Policy

34. Gobi was 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

[Redacted]

D. Assurances

²⁵ Relevant projects include: ADB. [Mongolia: Agriculture and Rural Development Project – Additional Financing](#); ADB. Mongolia: [Establishment of Climate-Resilient Rural Livelihoods Project](#).

²⁶ ADB. 2003. *Social Protection*. Manila (adopted in 2001).

²⁷ Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

²⁸ Gender Action Plan (accessible from the list of linked documents in Appendix 2).

35. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),²⁹ ADB will proceed with the assistance upon establishing that the Government of Mongolia has no objection to the assistance to Gobi. ADB will enter into suitable finance documentation, in form and substance satisfactory to ADB.

V. THE PRESIDENT'S DECISION

36. The President, acting under the authority delegated by the Board, has approved the loan of up to \$9,000,000 from the ordinary capital resources of the Asian Development Bank to Gobi Joint Stock Company for the Value-Added Cashmere Production and Export Project in Mongolia, and hereby reports this action to the Board.

27 July 2018

²⁹ ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

DESIGN AND MONITORING FRAMEWORK

Impacts the Project is Aligned with			
<p>A sustainable economy based on diversified domestic production developed by (i) creating an integrated system of production, transportation, processing, and supply of livestock-originated raw materials; and (ii) supporting foreign and domestic investments (Action Program of the Government of Mongolia, 2016-2020, Section 2.10 and Section 2.11)^a</p> <p>Livestock farming productivity increased and its economic turnover improved, and advanced technology and innovation introduced (Action Program of the Government of Mongolia, 2016-2020, Section 2.25)^a</p>			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>Outcome</p> <p>Rural livelihoods from high-value, export-oriented agribusiness value chain increased</p>	<p>By 2022:</p> <p>[Redacted]</p>	<p>a–e. Gobi’s annual development effectiveness monitoring report to ADB</p>	<p>Market risk (e.g., demand for cashmere products not as strong as expected, occasional outbreak of animal diseases, and risk of changing consumer preferences)</p> <p>Foreign exchange risk: about 90% of Gobi’s export sales are generated in United States dollars</p>
<p>Outputs</p> <p>1. Secondary cashmere processing operations in Ulaanbaatar expanded</p>	<p>By 2020:</p> <p>[Redacted]</p>	<p>1a–e. Gobi’s annual development effectiveness monitoring report to ADB</p>	<p>Operational risk (e.g., poor quality of raw cashmere, and losses resulting from cashmere harvesting waste)</p>
<p>2. Primary cashmere processing operations in rural Mongolia established</p>	<p>[Redacted]</p>	<p>2a–e. Gobi’s annual development effectiveness monitoring report to ADB</p>	
Key Activities with Milestones			

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>Outputs 1-2. Secondary cashmere processing operations in Ulaanbaatar expanded and primary cashmere processing operations in rural Mongolia established</p> <ol style="list-style-type: none"> 1. Sign loan agreement by 15 August 2018 2. Make first disbursement by 31 August 2018 			
<p>Inputs</p> <p>Loans Asian Development Bank: \$9.0 million (loan) Official cofinancing: \$9.0 million (loan) European Bank for Reconstruction and Development: \$6.0 million (loan)</p> <p>Equity Gobi internally generated cash flow: \$7.4 million</p>			

ADB = Asian Development Bank, tpa = ton per annum.

- ^a Government of Mongolia. 2016. *Action Program of the Government of Mongolia, 2016–2020*. Ulaanbaatar.
- ^b Gender designs in the new secondary processing facility are to include separate toilets for men and women, and designated areas for lactating mothers.
- ^c The proportion of women employees is targeted to be 50%, as around half of the positions in primary processing operations involve heavy manual labor (e.g., work in the scouring, dehairing, and packing workshops).
- ^d Gender designs in the new primary processing facility are to include separate toilets for men and women, designated areas for lactating mothers, and a medical center.

Sources: ADB and Gobi Joint Stock Company.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/FastReport/?id=51370-001>

1. Sector Overview
2. Client Information
3. Details of Implementation Arrangements
4. Contribution to the ADB Results Framework
5. Financial Analysis
6. Economic Analysis
7. Country Economic Indicators
8. Summary Poverty Reduction and Social Strategy
9. Environmental and Social Management System: Audit Findings and Details of Arrangement
10. Gender Action Plan