

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Mongolia	Project Title:	Value-Added Cashmere Production and Export Project
Lending/Financing Modality:	Corporate Loan	Department/ Division:	Private Sector Operations Department Office of the Director General

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

Gobi Corporation is the largest company producing cashmere and wool products in Mongolia. The company was established in 1981 as a state-owned enterprise and later it was fully privatized in 2007. Gobi produces various cashmere products and camel wool garments. It is the only Mongolian cashmere company that is involved in all stages of cashmere production from raw material to end-user products. Gobi currently provides its 100% cashmere products to 170 customers across 35 countries. Domestically, Gobi is the largest and most recognized cashmere brand and holds 71% of the domestic market share and 61% of the international market share (i.e., Mongolian cashmere export sales).

In addition, the agriculture sector is the backbone of the Mongolian economy and considered a priority by the Mongolian government to diversify the economy away from the mining sector. Mongolia produces a third of the global supply of raw cashmere, and cashmere accounts for almost 40% of Mongolia's nonmineral exports. In 2015, Mongolia produced over 8,900 tons of cashmere. However, only approximately 10% of cashmere output is processed domestically, and the rest is exported, primarily to PRC. More than 70% of washed cashmere is exported and much potential value-add remains uncaptured by domestic agribusinesses. The agriculture sector is mostly concentrated on primary production and forgoes significant value-addition because of limited processing capacity. This is partially due to shortage of long-term financing which hinders Mongolian agro-enterprises from making long-term investments to improve their productivity. Therefore, further development of an environmentally-friendly, value-added cashmere processing and export industry is a key element of Mongolia's sustainable economic growth and diversification away from the mining sector.

B. Poverty Targeting

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

The Project is classified as General Intervention as ADB can provide long-term financing to Gobi to expand its cashmere processing and export capacity. In addition to purchasing equipment for primary and secondary cashmere processing, the company plans to construct a new primary processing plant (likely in Zuunmod which is 40 km away from Ulaanbaatar) and a new secondary processing plant adjacent to its current facility in Ulaanbaatar.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. The primary beneficiaries of the project are the company itself, intermediaries, herders, contractors, employees of the existing and new cashmere processing plants, local community residents who generally benefit during project construction and operation, and population who benefit from job creation opportunities.

2. Impact channels and expected systemic changes. The project assists the company to achieve its vision to be a recognized brand and player in the global cashmere market and maintain its leadership position in the domestic market. Since the new primary production plant will be constructed in a rural area, it will provide employment opportunities for the surrounding community and also benefit herders in Zuunmod and Tuv province.

3. Focus of (and resources allocated in) the PPTA or due diligence. While owning a cashmere production plant in Ulaanbaatar, the company is planning to invest in a new primary processing plant in a rural area which is 40 km away from Ulaanbaatar. The project will follow local laws and regulation as well as the requirements of ADB's Safeguard Policy Statement (SPS) and other social dimensions on gender and core labor standards.

4. Specific analysis for policy-based lending. N/A

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program? Cashmere production is commonly practiced in rural areas of Mongolia. The cashmere production plant will be

constructed far away from residential areas. Most employees working in cashmere production are women and this is the case for Gobi as well. Some gender elements (SGE) is anticipated for this transaction. However, advancing gender can be initiated through jobs offered to local women as the opportunities which would be discussed further with the client during due diligence.

2. Does the proposed project or program have the potential to contribute 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 Please explain. If yes, a gender action plan should be prepared during PPTA or due diligence.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes No Please explain. If yes, actions and measures should be prepared during PPTA or due diligence. The proposed project does not have any adverse impacts on women and/or girls or widen gender inequality.

4. Indicate the intended gender mainstreaming category GEN (gender equity) EGM (effective gender mainstreaming)

SGE (some gender elements) NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design. The company will expand its cashmere production by constructing a new primary processing plant in a rural area outside Ulaanbaatar. Potential stakeholders include cashmere consumers (domestic and international consumers, and tourists), herders, intermediaries, contractors, national and local government, regulatory agencies, and host local communities. The project is anticipated to bring positive impacts to the local community and they will participate through community consultations conducted by the company.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded? Consultation meetings and public hearings will be conducted by the company with the relevant stakeholders, especially the community members in the rural area where the new primary processing plant will be constructed.

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? Yes No Please explain.

Details of the consultation and public hearing and grievance redress mechanism will be discussed in the corporate audit and ESMS.

IV. SOCIAL SAFEGUARDS

A. Involuntary Resettlement Category A B C FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? Yes No Gobi has a team handling land acquisition process. The land acquisition is based on willing seller-willing buyer and the site for the new primary processing facility is located within the industrial development plan of Zuunmod which 3.5 km is away from the nearest residential area. The site for the new secondary processing facility is adjacent to the current Gobi factory and on land that Gobi currently owns.

2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?

Resettlement plan Resettlement framework Social impact matrix

Environmental and social management system arrangement None

B. Indigenous Peoples Category A B C FI

1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? Yes No

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? Yes No Gobi does not have any project sites that have impacts on Indigenous Peoples

3. Will the project require broad community support of affected indigenous communities? Yes No Please explain.

4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?

- Indigenous peoples plan
- Indigenous peoples planning framework
- Social Impact matrix
- Environmental and social management system arrangement
- None

V. OTHER SOCIAL ISSUES AND RISKS

1. What other social issues and risks should be considered in the project design?

- (H) Creating decent jobs and employment
- (M) Adhering to core labor standards
- Labor retrenchment
- Spread of communicable diseases, including HIV/AIDS
- Increase in human trafficking
- Affordability
- Increase in unplanned migration
- Increase in vulnerability to natural disasters
- Creating political instability
- Creating internal social conflicts
- Others, please specify _____

Indicate high (H), medium (M), low (L) for selected boxes

2. How are these additional social issues and risks going to be addressed in the project design? Gobi will provide job opportunities for the local peoples through the construction of a new primary processing plant in rural areas outside Ulaanbaatar by increasing the number of employees. Manual work can be provided during construction and operation of the project.

VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence 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?

- Yes
- No If no, please explain why. There is no PPTA under private sector project but there was a TOR developed and the client will mobilize competent consultants to cover social safeguards issues and other social dimensions.

2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and participation plan during the PPTA or due diligence? Due diligence is undertaken by staff