



Initial Poverty and Social Analysis

July 2019

MON: Proposed Loan to XacBank LLC for Micro, Small, and Medium-Sized Enterprises Financing

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 08 August 2019)

Currency unit	–	Tugrik (MNT)
MNT1.00	=	\$0.0003751
\$1.00	=	MNT2,666

ABBREVIATIONS

ADB	–	Asian Development Bank
MSME	–	micro, small, and medium sized enterprise
SEMS	–	social and environmental management system
SME	-	small and medium sized enterprise

NOTES

- (i) The fiscal year (FY) of XacBank ends on 31 December
- (ii) In this report, "\$" refers to United States dollars.

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INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Mongolia	Project Title:	Proposed Loan to XacBank LLC for Micro, Small, and Medium-Sized Enterprises Financing
Lending/Financing Modality:	Loan	Department/Division:	Private Sector Operations Department/ Private Sector Financial Institutions Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS
<p>A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy The \$60 million proposed assistance from Asian Development Bank (ADB) will support XacBank’s onlending to micro, small, and medium-sized enterprises (MSMEs) in Mongolia. It is expected to contribute to the attainment of ADB’s Strategy 2030 operational priorities of (i) addressing the remaining poverty and reducing inequalities by improving access to finance, and (ii) accelerating progress in gender equality through women’s economic empowerment.^a It will also respond to ADB’s country partnership strategy for Mongolia (2017-2020), aimed at developing a more resilient and diversified economy to achieve rapid, inclusive, and sustainable growth by highlighting the greater role of SMEs in promoting diversification and job creation.^b</p>
<p>B. Poverty Targeting <input checked="" type="checkbox"/> General intervention <input type="checkbox"/> Individual or household (TI-H) <input type="checkbox"/> Geographic (TI-G) <input type="checkbox"/> Non-income MDGs (TI-M1, M2, etc.) The proposed project is designed to improve access of underserved segments of the population which will include women and borrowers in rural areas to loan and other financial services.</p>
<p>C. Poverty and Social Analysis 1. Key issues and potential beneficiaries. The proposed project will intensify XacBank’s financial services to MSME’s particularly women-led enterprises and MSME’s located in the rural areas, outside Ulaanbaatar. It is projected to contribute in addressing poverty and unemployment concerns experienced in Mongolia. Poverty incidence in Mongolia increased from 21.6% in 2014 to 29.6% in 2016.^c Poverty was more experienced in the rural areas with almost 35% of the population considered poor as compared to 27.1% in the urban areas.^d Unemployment rate also increased from 6.8% in 2013 to 7.2% in 2016. Higher unemployment rate was recorded for women at 8.4% as compared to men at 5.9%.^e The 2017 financial inclusion data of World Bank revealed that 93% of the population, 15 years old and above, have access to bank account while only 29% accessed credit from a financial institution.^f Experienced constraints in access to finance hinders the continuous growth of businesses in Mongolia, particularly the MSMEs, which restrict its potential to contribute to the economic growth of the country.^g 2. Impact channels and expected systemic changes. The proposed project will support XacBank’s access to longer-tenor financing in order to respond to financing needs of target MSME sub-borrowers that include small manufacturers, service enterprises, agribusinesses, traders, retailers, wholesalers, and distributors. 3. Focus of (and resources allocated in) the transaction TA or due diligence. XacBank has an existing Social and Environmental Management Systems (SEMS). Due diligence will review how XacBank apply its SEMS in evaluating E&S (environment, involuntary resettlement, and Indigenous Peoples) risk and impacts of each loan application. Full compliance of the existing SEMS with ADB’s Prohibited Investment Activities List and Safeguard Policy Statement. Labor-related aspects and potential gender mainstreaming measures will also be reviewed.</p>
II. GENDER AND DEVELOPMENT
<p>1. What are the key gender issues in the sector and/or subsector that are likely to be relevant to this project or program? The 2017 financial inclusion data of World Bank revealed that out of the total population who borrowed money in 2017, only 16% used the money to start, operate, or expand a business. There were more men who utilized the borrowed money for business at 18% than women at 13%.^h The growth and development of SME’s in Mongolia is constrained by access to finance, high taxes, and complex governmental procedures. However, women entrepreneurs experienced more constraints due to lack of networking opportunities, perception of financial institutions on women as high-risk segment due to insufficient assets and low capitalization, and the task of combining work and family responsibilities.ⁱ</p>
<p>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? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No The initial project design includes allocation of loan amount to women-led SMEs. In order to achieve this, a gender action plan will be prepared to improve XacBank’s capacity to service women borrowers and implement activities to widen its reach to potential women clients.</p>

<p>3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>The proposed project is designed to provide greater benefits to women and will unlikely to cause any adverse impacts to women and/or girls. Due diligence will confirm XacBank's existing loan products and programs being offered specifically to women customers.</p>
<p>4. Indicate the intended gender mainstreaming category: <input checked="" type="checkbox"/> GEN (gender equity) <input type="checkbox"/> EGM (effective gender mainstreaming) <input type="checkbox"/> SGE (some gender elements) <input type="checkbox"/> NGE (no gender elements)</p>
<p>III. PARTICIPATION AND EMPOWERMENT</p>
<p>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 main stakeholders of the proposed project will be XacBank and its employees since the expected outcome of the assistance will strengthen and sustain the existing operation. The primary stakeholders of XacBank will be the MSMEs who will access its financial services.</p> <p>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? Through the proposed project, XacBank will reach out and provide services to MSMEs in rural areas and women-owned enterprises.</p> <p>3. What are the key, active, and relevant civil society organizations (CSOs) in the project area? What is the level of civil society organization participation in the project design? <input checked="" type="checkbox"/> (L) Information generation and sharing <input type="checkbox"/> Consultation <input type="checkbox"/> Collaboration <input type="checkbox"/> Partnership</p> <p>4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how should they be addressed? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Not applicable. The proposed assistance to XacBank will be focused on lending and other financial services to MSME's.</p>
<p>IV. SOCIAL SAFEGUARDS</p>
<p>A. Involuntary Resettlement Category <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI (treated as C)</p>
<p>1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No XacBank's operations as well as its borrower's business activities are unlikely to cause physical and economic displacement. The existing procedure in the SEMS to evaluate potential impacts of each loan application on involuntary resettlement will be reviewed.</p> <p>2. What action plan is required to address involuntary resettlement as part of the transaction 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>
<p>B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI (treated as C)</p>
<p>1. Does the proposed project 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</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 nature of XacBank's operation and business activities that will be financed are unlikely to generate impacts on Indigenous Peoples. Existing measures in the SEMS to evaluate potential impacts of each loan application on Indigenous Peoples will be reviewed.</p> <p>3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Not applicable.</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the transaction 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>
<p>V. OTHER SOCIAL ISSUES AND RISKS</p>
<p>1. What other social issues and risks should be considered in the project design? <input type="checkbox"/> Creating decent jobs and employment <input checked="" type="checkbox"/> (L) 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 project design? Due diligence will confirm XacBank's compliance with core labor standards and national labor laws. Existing procedure in the loan application process to evaluate borrowers' compliance with national labor laws will be assessed.</p>
<p>VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT</p>
<p>1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA or due diligence process to better analyze (i) poverty and social impact, (ii) gender</p>

impact, (iii) participation dimensions, (iv) social safeguards, and (v) other social risks. Are the relevant specialists identified?

Yes No

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 transaction TA or due diligence?

Due diligence will be conducted by ADB staff which includes assessment of poverty, social, and gender concerns relevant to the proposed project.

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- ^a ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.
- ^b ADB. 2017. *Country Partnership Strategy: Mongolia, 2017-2020 – Sustaining Inclusive Growth in a Period of Economic Difficulty*. Manila.
- ^c World Bank. 2018. *Mongolia: Systematic Country Diagnostic*. <http://documents.worldbank.org/curated/en/576101543874150141/pdf/mongolia-scd-final-version-november-2018-11282018-636792121231072289.pdf>
- ^d ADB. 2019. *Key indicators for 2019*. Manila
- ^e ADB. 2018. *Key Indicators for Asia and the Pacific 2018*. Manila
- ^f Demirgüç-Kunt, Asli, Leora Klapper, Dorothe Singer, Saniya Ansar, and Jake Hess. 2018. *The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution*. World Bank: Washington, DC.
- ^g ADB. 2018. *Mongolia Financial Sector Fact Sheet*. Manila
- ^h Endnote f
- ⁱ International Finance Corporation. 2014. *SMEs and Women-owned SMEs in Mongolia: Market Research Study*. Washington D.C.