

## DEVELOPMENT COORDINATION

### A. Major Development Partners: Strategic Foci and Key Activities

1. **Development and finance of small and medium-sized enterprises.** Development partner assistance in Mongolia's private sector has focused on the development of small and medium-sized enterprises (SMEs). This assistance has come in two main forms. One group of development partners has supported the more established SMEs, mostly through lending projects and programs. This includes such international financial institutions as the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), and the Japan Bank for International Cooperation (JBIC). The second group has assisted small and micro enterprises through grants and technical assistance (TA) and includes the Japan International Cooperation Agency (JICA).

2. **ADB assistance.** ADB's Agriculture and Rural Development Project, approved in 2008, and additional financing for this project scheduled for approval in 2015 were designed to help develop the country's SMEs through grants and TA.<sup>1</sup> The additional financing will help Mongolia increase the value addition in developing its rich but underutilized livestock and overall agricultural resources through (i) financing of value chain investments in agro-enterprises and cooperatives; (ii) capacity strengthening for primary producers and processors; (iii) the expansion of the marketing and technical capacity of agro-enterprises and cooperatives; and (iv) building Mongolia's product brand. It is expected to generate employment opportunities and help diversify the economy, which is currently dominated by the mining sector.

3. **Khan Bank.** In 2007, ADB approved a senior unsecured loan of \$10 million with a maturity of 6 years to Khan Bank. The objectives were (i) to contribute to the diversification of the Mongolian economy through increasing the availability of corporate lending services and financial services that meet the specific needs of larger companies, and (ii) to help improve finance sector efficiency and depth by enabling Khan Bank to offer loans with longer maturities and grow its corporate banking business. The 2013 annual review of this loan rated it *successful* overall.<sup>2</sup> In 2014, further funding was approved to provide better access to bank financing for the country's micro, small, and medium-sized enterprises (MSMEs). The \$40 million senior loan was aimed at expanding Khan Bank's MSME portfolio to 35% of its total loans by 2020 from 26% in 2013 and creating jobs.<sup>3</sup>

4. **Xac Bank.** In 2013, ADB approved unsecured senior loans to XacBank of up to \$30 million and to TenGer Financial Group of up to \$10 million (for onlending to XacLeasing). This project aims to support MSMEs through subloans by XacBank and leases provided by XacLeasing.<sup>4</sup>

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<sup>1</sup> ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Asian Development Fund Grant and Technical Assistance Grant to Mongolia for the Agriculture and Rural Development Project*. Manila; ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for Additional Financing and Administration of Technical Assistance Grant for Additional Financing to Mongolia: Agriculture and Rural Development Project*. Manila.

<sup>2</sup> ADB. 2013. *Extended Annual Review Report: Senior Unsecured Loan Khan Bank (Mongolia)*. Manila.

<sup>3</sup> ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Senior Loan Khan Bank Supporting Micro, Small and Medium-Sized Enterprises (Mongolia)*. Manila.

<sup>4</sup> ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Senior Loans XacBank and TenGer Financial Group Supporting Micro, Small, Medium-Sized Enterprises and Leasing Finance (Mongolia)*. Manila.

5. **European Bank for Reconstruction and Development.** EBRD's main strategy in Mongolia has been to support national entrepreneurship by providing access to long-term finance and helping enterprises raise corporate standards to international levels. An ongoing EBRD project launched in 2012, Support for SME Development in Mongolia, aims to support the sustainable development of a competitive micro, small, and medium-sized enterprises sector by helping to enhance the enabling environment for business and strengthening the relevant institutions. It includes a series of integrated activities aimed at building capacity in the government agency supporting SMEs and promoting reforms to give SMEs more access to finance. It will also help develop business support and consultancy services in the country and work with individual companies to improve their operational efficiency, with support from domestic management consulting firms. Additionally, a long-term EBRD loan approved in 2013 to XacBank will be used to offer long-term loans to SMEs. The financing will help the bank increase XacBank's share in the growing SMEs market.

6. **Japan Bank for International Cooperation and Japan International Cooperation Agency support.** The JBIC and JICA support private sector development and environmental protection by providing long-term financing to SMEs. The aim of their Two-Step Loan Project approved in 2006 is the expansion of a long-term finance market for SMEs to help create sustainable employment, growth, and poverty reduction. The project supports SMEs by enabling participating banks to provide long-term loans.<sup>5</sup> The loan was extended in two phases, Phase I providing finance to seven commercial banks, and Phase II financing six commercial banks. Phase III negotiations were expected to begin in September 2015 for a new loan to the government to continue financing selected banks to support SMEs of JPN10 billion,<sup>6</sup> with implementation planned for 2016, but the status of Phase III is still pending.

7. Under a JICA sponsored project, JICA plans to recruit a retired expert under a volunteer program to help the Credit Guarantee Fund of Mongolia (CGFM) build its capacity over a 2-year period.<sup>7</sup> JICA will contract an expert with more than 10 years of experience in financing and credit guarantee systems for SMEs with mobilization planned for mid-2016. The contracted volunteer will (i) advise CGFM staff on decisions regarding credit guarantees to SMEs, evaluation methods, and the establishment of standards; (ii) work with CGFM to establish a rating system to evaluate the economic and financial capacity of SMEs; (iii) provide guidance on improving and maintaining monitoring mechanisms for credit guarantee loans and bad debts; and (iv) provide guidance on the development of new products, service improvements, fees, policies and manuals, and expansion of business.

8. Table 1 provides a summary of development partner projects beginning in 2006 and onward as well as proposed projects. All projects have been discussed in previous paragraphs and are related to the overall theme of development and financing of SMEs. Projects summarized are complimentary to the Supporting the Credit Guarantee System for Economic Diversification and Employment Project.

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<sup>5</sup> Eligible SMEs must have fewer than 200 employees and qualify under the 2007 law governing SMEs. Further eligibility criteria also apply.

<sup>6</sup> The amount has not yet been confirmed.

<sup>7</sup> JICA had already attempted to recruit a volunteer during 2014 and 2015, but failed.

**Table 1: Major Development Partners**

Development Partner	Project Name	Duration	Amount (million)
<b>Development and Financing of SMEs</b>			
ADB	Senior Unsecured Loan Khan Bank (Mongolia)	2007–2009	\$10.00 (L)
	Proposed Senior Loans XacBank and TenGer Financial Group Supporting Micro, Small, Medium-Sized Enterprises and Leasing Finance (Mongolia)	2013-2018	\$30.00 (L)
	Proposed Senior Loan Khan Bank Supporting Micro, Small and Medium-Sized Enterprises (Mongolia)	2014-2019	\$40.00 (L)
	Proposed Asian Development Fund Grant and Technical Assistance Grant to Mongolia for the Agriculture and Rural Development Project	2009–2016	\$14.70 (G)
EBRD	Support for SME Development in Mongolia	2011-2016	€ 3.80 (G)
	Syndicate Loan to Xac Bank (SMEs development)	2012-2017	\$46.00 (L)
JBIC/JICA	Two-step loan project (phase 1)	2006–2010	¥2,981 (L)
	Two-step loan project (phase 2)	2011–2014	¥5,000 (L)
	Two-step loan project (phase 3)	TBC	¥10,000 (L)
JICA	Volunteer Program for the CGFM (to be recruited)	TBC	NA

ADB = Asian Development Bank, EBRD = European Bank for Reconstruction and Development, G = grant, JBIC = Japan Bank for International Cooperation, JICA = Japan International Cooperation Agency, MSMEs = micro, small and medium-sized enterprises, SMEs = small and medium-sized enterprises, TBC = to be confirmed.

Sources: Asian Development Bank, EBRD, JICA, JBIC

## **B. Institutional Arrangements and Processes for Development Coordination**

9. The project steering committee of the Supporting the Credit Guarantee System for Economic Diversification and Employment Project will lead coordination to ensure that the project is aligned with relevant Mongolian government sector policies and strategies. No specific institutional arrangements between Mongolia's development partners exist regarding private sector development. However, development partners involved in the sector communicate regularly on a bilateral basis regarding their operations overall.

## **C. Achievements and Issues**

10. Development partner support for the development and financing of SMEs began relatively recently in 2006. It will continue due to the measurable positive results so far. The support has provided financing for private enterprises that previously had no or only limited access to finance and has helped to some extent to lower the high cost of capital that had held back their development. This has particularly been the case in the assistance provided for SMEs.<sup>8</sup>

## **D. Summary and Recommendations**

11. Although a growing number of development partners are now working to support SMEs, restricted access to affordable long-term finance continues to constrain the sector's development. ADB will continue to coordinate with development partners to maximize results and ensure that the project outcome is achieved.

<sup>8</sup> The policy interest rate in Mongolia was 13% as of 5 February 2015.