

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Mongolia	Project Title:	Supporting the Credit Guarantee System for Economic Diversification and Employment
Lending/Financing Modality:	Financial Intermediation Loan	Department/Division:	East Asia Department/Public Management, Financial Sector, and Regional Cooperation Division

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Poverty targeting: General Intervention

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

1. The Government of Mongolia has initiated programs to improve access to finance, including the establishment of the Credit Guarantee Fund of Mongolia (CGFM) and a fund to support the development of small and medium-sized enterprises (SMEs). Through its support for the CGFM, the project will contribute to private sector development, one of the cornerstones of the country's poverty reduction strategy and a thematic driver for change under the Asian Development Bank (ADB) interim country partnership strategy for Mongolia for 2012–2016.^a The project will give SMEs better access to finance by enabling them to pledge additional types of collateral when borrowing and by facilitating the development of market-based long-term funding they need. The project will contribute to economic diversification and job creation in both rural and urban areas and thereby help build a more stable economy that is less reliant on the volatile minerals' sector for growth and employment.

B. Results from the Poverty and Social Analysis during PPTA or Due Diligence

1. Key poverty and social issues. Micro, small, and medium-sized enterprises (MSMEs) make up 98% of all enterprises in the country with 75% of all MSMEs being microenterprises. According to the World Bank, MSMEs contributed about 25% of gross domestic product and employed 52% of the workforce in 2014. Only 10% of about 37,000 SMEs have regular access to finance through banks. Rural SMEs particularly lack access to banks, as well as alternative sources of finance such as from nonbank financial institutions and development partner-funded credit lines.^b SME survey results demonstrated that 20% of rural SMEs are currently not using any financial resources, compared with 12% of urban SMEs. 20% of urban SMEs and 22% of rural SMEs view their difficulties in getting financial support as the main barrier to their business development and employment generation. High interest rates and a lack of collateral are the two main obstacles to obtaining loans. The lack of collateral for financing is especially important for SMEs owned or managed by women^c as they lack business assets that can be pledged since their SMEs are generally smaller than those run by men. SMEs stated two major reasons for seeking bank loans in the next 3-years were to fund business expansion, and to purchase or replace equipment. These investments need to be funded by longer-term loans allowing SMEs to fully use depreciation, better match the useful life of the equipment with the loan term, or to be consistent with longer-term objectives, resulting in lower cash flow requirements. The fact that Mongolian banks have a limited capacity to provide longer-term loans has negatively affected SMEs development, the modernization of production, and introduction of new technology. According to the SME survey about 90% of urban SMEs and 83% of rural businesses that are planning to apply for the loans in the next 3 years are expecting an increase in the number of employees due to business expansion.

2. Beneficiaries. The project's direct beneficiaries will be urban and rural SMEs that currently have limited access to bank loans due to a lack of acceptable collateral, as well as those SMEs that are looking for longer-term loans for investment purposes. The indirect beneficiaries will be individuals who gain jobs, more secure employment, higher wages, and improved working conditions. Growth triggered by additional financing for SMEs will help raise their income generation capacity particularly for those in areas underserved by financial institutions that will foster economic growth, social stability, and development of the private sector.

3. Impact channels. The project's impact will be channeled through expanded access to finance for SMEs that due to the lack of collateral have limited access to the bank loans. In addition to the direct impacts, the project will improve access to finance of SMEs in rural areas thereby contributing to a better regional balance in private sector growth. With better access to credit guarantees and longer-term loans to finance investments, SMEs will develop their business, provide more employment and better wages, and help diversity Mongolia's economy.

4. Other social and poverty issues. SMEs employ a wide range of skilled and unskilled workers. SMEs may not target the employment of workers from impoverished households directly, but by increasing employment and making jobs more secure they will provide new opportunities to raise many households' incomes. The quality of employment and the need to ensure compliance with national labor standards at SMEs is a social issue due to the fact that government enforcement of regulations in smaller enterprises remains weak. SMEs often hire staff on a seasonal or daily basis in order to avoid payment of social contributions and offering of social benefits such as sick leave, pensions, and to avoid labor standard compliance requirements.

5. Design features. The intended outcome will be improved access of SMEs to finance. Special attention is paid to improve access of rural SMEs to finance and ensuring that SMEs run by women have equal access to the credit guarantee system and collateral. The project's design and monitoring framework (DMF) includes an output that ensures that a specific target for including businesses run by women in the credit guarantee system will be part of the

CGFM's operational procedures. The project will include outreach as part of ongoing CGFM programs to make both women and men in rural and urban areas better aware of the credit guarantee system. A target during the first 5 years of project implementation will require that 50% of the guarantee loan accounts opened by participating financial institutions (PFIs) and supported by the project must be for SMEs run by women. New products will be developed to meet the specific requirements of rural SMEs. The project will help enhance the CGFM's management Information system to enable it to collect, report, and analyze gender disaggregated data. Training in gender sensitivity and on gender analysis for decision making will be provided to the CGFM and PFIs. PFIs will collect and analyze gender disaggregated data for reporting to the CGFM to allow for monitoring of project objectives.

II. PARTICIPATION AND EMPOWERING THE POOR

1. Participatory approaches and project activities. During loan due diligence, ADB conducted an SME survey and consulted with the stakeholders to collect impact data and raise awareness about the project. The project design is based on provision of a financial intermediation loan to the CGFM to enable selected PFIs to make longer-term investment loans to SMEs. No special measures for the poor or vulnerable are included. The project will make the poor and the vulnerable groups aware of the credit guarantee system as part of its public awareness-raising activities in general. Project activities will be mainly financial transactions, which offer little scope for community participation. The CGFM will update potential clients on the project through regular outreach channels and with specially designed marketing strategies.

2. Civil society organizations. Civil society organizations will have a limited role during implementation focusing only on information gathering and sharing, and consultation. Business incubators and NGOs supporting women were consulted during project preparation and will be used for information dissemination to targeted SMEs.

3. The following forms of civil society organization participation are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA):

Information gathering and sharing (M) Consultation (L) Collaboration Partnership

4. Participation plan. Yes.

No.

III. GENDER AND DEVELOPMENT

Gender mainstreaming category: some gender elements

A. Key issues

Gender analysis in Mongolia must consider several distinctive social and cultural aspects influenced by the traditional nomadic way of life. In rural areas, women are actively involved in day-to-day operations and decision making in family businesses. Women have become active entrepreneurs in both urban and rural areas, but the SMEs they operate or own tend to be smaller than those owned or operated by men. The SME survey showed that 8.1% of the SMEs run by men used nonbank financial institutions (NBFIs), compared with only 4.3% of those run by women. Further, SMEs run by men have more access to financial assistance from friends and relatives and are more likely to find partners to contribute capital when their businesses need financing. Nonetheless, the survey results also showed that SMEs run by women are more successful in obtaining subsidized loans under government programs. While SMEs run by men more often applied for bank loans, they were also turned down more frequently. SMEs run by women applied for bank loans less frequently, for fear of rejection, but were more successful in having their applications approved. SMEs run by women were dissuaded from applying for loans due to collateral requirements, strict lending terms, the paperwork involved, and concern about possible rejection. Rural SMEs face greater business development obstacles than urban ones do, as they operate in smaller markets, have fewer opportunities to find financial resources, have limited access to training and skill development, and have fewer business networking options. Women entrepreneurs in rural areas face additional challenges such as fewer childcare options and more limited infrastructure available for their smaller businesses. Four key factors that seriously affect the ability of SMEs to successfully apply for loans with commercial banks and NBFIs are: (i) a lack of entrepreneurial experience; (ii) limited knowledge and understanding of loan application procedures; (iii) a lack of collateral; and (iv) a lack of financial literacy. SMEs, especially micro enterprises, often are not able to present valid bookkeeping and income statements needed when applying for loans from banks and NBFIs. While a lack of collateral is noted by respondents in the SME survey from both gender groups as a key concern to access bank loans, this concern was more often noted as an impairment by SMEs run by women. Clear vertical gender segregation exists in the PFIs. The female to male ratio in senior management, senior specialist, and specialist positions is skewed toward men, while the majority of lower-level staff members are women. Having a reasonable mix of men and women in front-line specialist positions that do most of the work with potential SME clients is important to achieving gender sensitivity.

B. Key actions. As the project outcome is likely to directly improve access to bank loans for both women and men and indirectly improve employment opportunities for women in the SME sector, the proposed gender category for the project is some gender elements.

Gender action plan Other actions or measures No action or measure

The project includes a target that 50% of project-supported loans will be made to SMEs run by women. The ultimate goal is not only to improve access to financing for SMEs, but also to develop increased employment opportunities for women, especially in rural areas. This will be achieved through targeted project support for the financing of the longer-term investments by SMEs that will increase employment. The project will promote gender equality in workplaces consistent with national legislation and the country's 2011 law on the promotion of gender equality. The project implementation unit (PIU) will have a social and gender focal point to assist in gender analysis and support outreach and transfer of knowledge to PFIs. The project will require the PFIs and the CGFM to upgrade systems so

that they can gather and analyze gender disaggregated data for decision making.											
IV. ADDRESSING SOCIAL SAFEGUARD ISSUES											
A. Involuntary Resettlement	Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input checked="" type="checkbox"/> FI										
<p>1. Key impacts. The proposed activities of SMEs are not expected to cause involuntary land acquisition or displacement, and any proposed SME activity that could cause these impacts will be excluded from project support.</p> <p>2. Strategy to address the impacts. PFIs will implement the Environment and Social Management System (ESMS) to screen all sub-loans and ensure no impacts.</p> <p>3. Plan or other Actions.</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; border: none;"><input type="checkbox"/> Resettlement plan</td> <td style="width: 50%; border: none;"><input type="checkbox"/> Combined resettlement and indigenous peoples plan</td> </tr> <tr> <td style="border: none;"><input type="checkbox"/> Resettlement framework</td> <td style="border: none;"><input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework</td> </tr> <tr> <td style="border: none;"><input checked="" type="checkbox"/> Environmental and social management system arrangement</td> <td style="border: none;"><input type="checkbox"/> Social impact matrix</td> </tr> <tr> <td style="border: none;"><input type="checkbox"/> No action</td> <td></td> </tr> </table>		<input type="checkbox"/> Resettlement plan	<input type="checkbox"/> Combined resettlement and indigenous peoples plan	<input type="checkbox"/> Resettlement framework	<input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework	<input checked="" type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Social impact matrix	<input type="checkbox"/> No action			
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B. Indigenous Peoples	Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input checked="" type="checkbox"/> FI										
<p>1. Key impacts. The proposed activities of beneficiary SMEs are not expected to have any of the direct or indirect impacts on ethnic minority communities that would trigger ADB's indigenous policy requirement.</p> <p>Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Strategy to address the impacts. PFIs will implement the ESMS to screen all sub-loans and ensure no impacts.</p> <p>3. Plan or other actions.</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; border: none;"><input type="checkbox"/> Indigenous peoples plan</td> <td style="width: 50%; border: none;"><input type="checkbox"/> Combined resettlement plan and indigenous peoples plan</td> </tr> <tr> <td style="border: none;"><input type="checkbox"/> Indigenous peoples planning framework</td> <td style="border: none;"><input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework</td> </tr> <tr> <td style="border: none;"><input checked="" type="checkbox"/> Environmental and social management system arrangement</td> <td style="border: none;"><input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary</td> </tr> <tr> <td style="border: none;"><input type="checkbox"/> Social impact matrix</td> <td></td> </tr> <tr> <td style="border: none;"><input type="checkbox"/> No action</td> <td></td> </tr> </table>		<input type="checkbox"/> Indigenous peoples plan	<input type="checkbox"/> Combined resettlement plan and indigenous peoples plan	<input type="checkbox"/> Indigenous peoples planning framework	<input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework	<input checked="" type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary	<input type="checkbox"/> Social impact matrix		<input type="checkbox"/> No action	
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V. ADDRESSING OTHER SOCIAL RISKS											
A. Risks in the Labor Market											
<p>1. Relevance of the project for the country's or region's or sector's labor market.</p> <p><input checked="" type="checkbox"/> unemployment (M) <input checked="" type="checkbox"/> underemployment (M) <input type="checkbox"/> retrenchment <input checked="" type="checkbox"/> core labor standards (M)</p> <p>2. Labor market impact. Increased lending to SMEs will contribute to employment generation, more secure employment, and higher wages. Provisions have been made to ensure that all the participating SMEs comply with national labor standards.</p>											
B. Affordability. No impact											
C. Communicable Diseases and Other Social Risks											
<p>1. Indicate the respective risks, if any, and rate the impact as high (H), medium (M), low (L), or not applicable (NA):</p> <p><input type="checkbox"/> Communicable diseases (NA) <input type="checkbox"/> Human trafficking (NA)</p> <p><input type="checkbox"/> Others (please specify) ___NA_____</p> <p>2. Describe the related risks of the project on people in project area. (NA)</p>											
VI. MONITORING AND EVALUATION											
<p>1. Targets and indicators: Outcome and output indicators include a target for the gender mix of SMEs for which loan accounts will be opened—50% of which are to be SMEs in which women have a major role as owners, managers or employees. Indicators also support the collecting, reporting, and analysis of gender disaggregated data.</p> <p>2. Required human resources: The PIU will have a social and gender focal point appointed to assist in gender analysis and support outreach and transfer of knowledge to PFIs.</p> <p>3. Information in the project administration manual: Monitoring, evaluation, and reporting on social safeguards is included as are gender and labor issues.</p> <p>4. Monitoring tools: Monitoring will be conducted by the PIU. The PIU will update gender disaggregated data and information and carry out annual review and consultations on the social, gender, and participatory aspects of the project.</p>											

^a ADB. 2014. *Interim Country Partnership Strategy: Mongolia, 2014–2016*. Manila.

^b SME credit lines financed by Two-steps-loans (JICA), EBRD and IFAD

^c Businesses identified as run by women for this project are businesses that meet at least one of three criteria, i.e., that (i) they are at least 50% owned by women, (ii) at least 60% of their senior managers are women; and/or (iii) at least 50% of the registered employees are women. Asian Development Bank. 2014. *Gender Toolkit for Micro, Small, and Medium-Sized Enterprise Finance and Development*. Manila.