

ASIAN DEVELOPMENT BANK

PCR: MON 26450

PROJECT COMPLETION REPORT

ON THE

**EMPLOYMENT GENERATION PROJECT
(Loan 1290–MON [SF])**

IN

MONGOLIA

June 2000

CURRENCY EQUIVALENTS

Currency Unit – Tugrik (Tug)

	At Appraisal (21 Sep 1993)	At Project Completion (31 Aug 1999)
Tug1.00 =	\$0.00257	\$0.000974
\$1.00 =	Tug389	Tug1,026.62
\$1.00 =	SDR1.3863	SDR1.3698

ABBREVIATIONS

ADB	–	Asian Development Bank
BME	–	benefit monitoring and evaluation
BOM	–	Bank of Mongolia
EA	–	Executing Agency
EGP	–	Employment Generation Project
FIRR	–	financial internal rate of return
ITI	–	Investment and Technological Innovation
LEOS	–	Liberal Women's Brain Pool
MEF	–	Mongolian Employers' Federation
MHSW	–	Ministry of Health and Social Welfare
MONCORD	–	Mongolian Saving Credit Association
MPPL	–	Ministry of Population and Labor
MSE	–	micro and small enterprise
NGO	–	nongovernment organization
PCB	–	participating commercial bank
PMU	–	project management unit
SCC	–	savings and credit cooperative
SDR	–	special drawing rights
SME	–	small- and medium- sized enterprise
SOE	–	state-owned enterprise
STD	–	special time deposit
TA	–	technical assistance
UPSC	–	Union of Mongolian Production and Service Cooperatives

NOTES

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

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BASIC DATA

A. Loan Identification

1. Country	Mongolia
2. Loan Number	1290-MON(SF)
3. Loan Title	Employment Generation Project
4. Borrower	Government of Mongolia
5. Executing Agencies	Bank of Mongolia (BOM) Ministry of Health and Social Welfare
6. Amount of Loan	SDR2,154,000
7. PCR Number	PCR:MON 571

B. Loan Data

1. Appraisal	
- Date Started	8 Sep 1993
- Date Completed	21 Sep 1993
2. Loan Negotiations	
- Date Started	10 Nov 1993
- Date Completed	12 Nov 1993
3. Date of Board Approval	16 Dec 1993
4. Date of Loan Agreement	25 Feb 1994
5. Date of Loan Effectiveness	
- In Loan Agreement	25 May 1994
- Revised	11 May 1994
- Number of Extensions	
6. Terminal Date for Commitments	
- In Loan Agreement	30 Jun 1997
- Actual	31 Aug 1999
- Number of Extensions	2
7. Closing Date	
- In Loan Agreement	30 Jun 1997
- Revised	31 Aug 1999
- Number of Extensions	2
8. Terms to the Borrower	
- Interest Rate	0
- Service Charge	1 percent
- Maturity	40 years
- Grace Period	10 years
- Repayment Terms	Semiannual (15 Mar and 15 Sep)
9. Terms of Relending	
- Interest Rate for Special Time Deposit	

Original

Pegged to a base rate equivalent to the average quoted rate of the five largest commercial banks on their two-month tugrik time deposits for the two months

immediately preceding the disbursement of relending funds or opening of the special time deposit (STD) by BOM with the participating commercial bank (PCB). STD monthly interest rate will be 1 percent lower than the monthly BR.

- | | |
|-------------|---|
| Revised | Weighted average cost of funds of the five largest banks on a quarterly basis. |
| - Maturity | Maturity did not exceed one year or such period to allow ample time for PCBs to recover subloans covered by a particular STD; STDs have a one-month maturity period longer than the corresponding subloans financed under it. |
| - Repayment | Principal and interest on the STD was payable in lump sum at the time of maturity of the STD. |

10. Terms of Onlending

- | | |
|-----------------------------|--|
| - Interest Rate on Subloans | |
| Original | Interest rate on subloans was equal to the current lending rate charged by the concerned PCB on similar loans to microenterprises calculated on a diminishing balance. |
| Revised | None |
| - Maturity | Maturity was based on subproject cash flows, but preferably was not to exceed one year. |
| - Repayment | Repayment and grace periods of subloans was timed according to subproject cash flows, preferably in frequent and small installments as are usually considered best suited to medium to small-scale operations. |

11. Disbursements

a. Dates

Initial Disbursement	Final Disbursement	Time Interval
22 Jul 1994	29 Sep 1999	62 months
Effective Date	Original Closing Date	Time Interval
11 May 1994	31 Dec 1997	43 months

b. Amount (\$)

Category or Subloan	Original Allocation	Last Revised Allocation	Amount Cancelled	Net Amount Available	Amount Disbursed	Undisbursed Balance
Savings and Credit Cooperatives	–	83,610	–	83,610	60,526	23,084
1.Consulting Services	–	41,494	–	41,494	31,225	10,269
2.Reports, Communications, Translation	–	20,339	–	20,339	18,032	2,307
3.Local Training	–	11,377	–	11,377	11,269	108
4.Unallocated	–	10,400	–	10,400	–	10,400
Credit Line	3,000,000	3,001,770	–	3,001,770	3,024,854	(23,084)
Total	3,000,000	3,085,380	–	3,085,380	3,085,380	–

C. Implementation Data

- Number of Subloans
- Sectoral Distribution of Subloans

Sector	Projected (percent)	No.	Actual	
			Amount (Tugrik)	Percent
Food Processing and Manufacturing	47	294	1,253,530,000	49
Trading	25	104	495,000,000	19
Agriculture	6	49	268,020,000	11
Services and Others	22	120	538,330,000	21
Total	100	567	2,554,880,000	100

- Size of Subloans (Actual)

Range	No. of Subloans	Aggregate Amount (Tugrik)
(a) Up to Tug2,000,000	210	384,500,000
(b) Tug2,000,001-Tug4,000,000	210	697,200,000
(c) Tug4,000,001-Tug10,000,000	58	412,210,000
(d) Over Tug10,000,000	89	1,060,170,000
Total	567	2,554,880,000

- Participating Commercial Banks

Bank	No. of Loans	Amount (Tugrik)
Agricultural Bank	175	1,005,000,000
Ardyn Bank	170	374,400,000
Bayanbogd Bank	61	516,000,000
ITI Bank	161	659,480,000
Total	567	2,554,880,000

D. Data on ADB Missions

Name of Mission	Date	No. of Persons	No. of Person-days	Specialization of Members
Fact-Finding	19 Jul-8 Aug 1993	5	61	d, g, d, e
Appraisal	8-21 Sep 1993	5	70	d, g, c, d, e
Project Inception	6-13 Apr 1994	3	24	d, d, h
Review 1	22-29 Oct 1994	2	16	d, h
Review 2	14 Mar-4 Apr 1995	2	42	d, e
Review 3	8-17 Nov 1995	2	20	d, h
Review 4	14-25 May 1996	2	24	d, h
Special Project Administration	28 Nov-9 Dec 1996	2	26	a, h
Special Project Administration	12 Dec 1997	1	1	a
Review 5	1-15 Sep 1998	4	63	d, b, e, e, h
Review 6 (Project Completion)	11-22 Oct 1999	3	36	d, e, h

a=engineer, b=financial analyst, c=counsel, d=economist, e=microcredit specialist (consultant), f=control officer, g=programs officer, h=project administration assistant.

E. Related Loans

Loan No.	Date of Loan Agreement	Amount
Loan 1509-MON: Financial Sector Program Loan	19 Dec 1996	\$35 million
TA 2720-MON: Strengthening the Supervisory and Restructuring Capacity of the Bank of Mongolia	19 Dec 1996	\$1 million
TA 3208-MON: Strengthening Restructuring of the Banking System	17 Jun 1999	\$0.220 million

I. PROJECT DESCRIPTION

1. The Asian Development Bank (ADB) developed the Employment Generation Project (EGP) during 1993 as a first step toward assisting Mongolian micro and small enterprises (MSEs). The assistance was to take the form of loans by ADB through the Bank of Mongolia (BOM) to a small group of participating commercial banks (PCBs) that would, in turn, be lent to creditworthy MSE borrowers. The loan was provided from ADB's Special Funds for the EGP, in the amount of special drawing rights (SDR) 2.154 million (equivalent to \$3.09 million). A \$598,000 technical assistance (TA) grant accompanied the loan.¹ The purpose of the TA was to enhance the capability of the relevant agencies and provide skills development training to the project beneficiaries.

2. At the time the EGP was designed, Mongolia's transition to a market economy was barely under way. It was clear that significant economic hardship would accompany the process of economic change. The two-tiered banking system was established only in 1991. The managers of the new commercial banks, still mainly government-owned or majority-controlled by state-owned enterprises (SOEs), were inexperienced in dealing with the risks of commercial lending. They were also reluctant to lend to individuals or smaller businesses. Many increasingly uncompetitive SOEs, which accounted for most of the employment and output in 1993, were being kept alive with concessionary loans from banks, an activity that effectively crowded out the new private companies that were in need of capital. Furthermore, it was clear at that time many of these SOEs would not survive as the economy became more open, and in 1993 there were clear indications of rising unemployment and underemployment in Mongolia to underline this trend. Finally, high inflation without historical precedent created tremendous anxiety and uncertainty, undermining the currency. This heightened the perceived risk of lending to new, smaller enterprises.

3. The EGP was designed to ameliorate the worsening economic conditions for MSEs at what was considered to be a critical juncture in the transition process, when many of the benefits of the old system (such as generous levels of social protection) had been lost, but few of the expected gains of a market economy were being realized. The EGP was designed to address the social costs of the transition process, which aimed to sustain critical public support for ongoing reforms, and to attain the twin objectives of poverty reduction and employment generation.

4. The Ministry of Population Planning and Labor (MPPL), which later became the Ministry of Health and Social Welfare (MHSW), was selected to be the Executing Agency (EA) for the EGP. At that time, MPPL, which was charged with monitoring unemployment and administering to the unemployed, appeared to be the most appropriate agency for a project aimed at reducing unemployment. In addition, MPPL was seen as the Government agency least likely to channel project funds to "favorite" industries or companies.

5. In essence, the EGP was a rediscount facility, in which BOM, PCBs, nongovernment organizations (NGOs), and the project management unit (PMU) all had specific roles. First, ADB lent money to the Government, which, in turn, onlent the money to BOM. The PCBs, selected by ADB under the EGP, could bring qualifying loans from MSE borrowers for funding to BOM, which would then open a special time deposit (STD) for the PCB in an amount equivalent to eligible subloan applications from subborrowers. The NGOs assisted the subborrowers, generally members of their own organizations, to prepare the documentation required by the PCBs. The PMU received copies of all loan applications submitted by the PCBs, and monitored key benefits, and borrower repayment performance. The EGP's geographic coverage was limited to the capital city of Ulaanbaatar.

¹ TA 2020-MON: *Institutional Enhancement for Employment Generation*, for \$598,000, approved on 16 Dec 1993.

II. EVALUATION OF IMPLEMENTATION

A. Project Components

1. Credit Component

6. The loan (para. 1) was provided for onlending for a credit line for microenterprises. The subloans were available to individuals as well as companies (including cooperatives), and were used to establish or expand businesses. The EGP financed a wide range of microenterprises, including labor-intensive cottage industries, small-scale commercial and trading entities, and those engaged in various services. The interest rate on subloans was equal to the current lending rate charged by the concerned PCB on similar loans to microenterprises calculated on a diminishing balance. Maturity was based on subproject cash flows, but preferably was not to exceed one year. Repayment and grace periods of subloans were timed according to the subproject cash flows, preferably in frequent and small installments.

2. Savings and Credit Cooperatives Formation

7. Following the recommendations of a microfinance specialist fielded under the associated TA,² five savings and credit cooperatives (SCCs) were established on a pilot basis to improve the outreach of retail loans to microenterprises.

8. The SCCs operated under bylaws and regulations falling under the cooperative law promulgated in January 1998, and received temporary licenses from BOM. In July 1999, however, BOM ceased supervising the SCCs (for lack of a legal basis for BOM supervision), and SCCs have become independent institutions without any government supervision or control. About 40 SCCs have been registered with the State Tax Office in Ulaanbaatar and about 10 have registered in various aimags (provinces). This substantial increase in the number of SCCs within two years shows a growing interest and need for microfinance services in the country. Rectification of fundamental weaknesses is urgently needed, as indicated by the wide variety of accounting and lending practices observed in the SCCs; the lack of professionally trained accountants, auditors, and managers; and a general confusion regarding the concept of savings versus the concept of capital. Summary profiles of the SCCs supported under the EGP are given in Appendix 1.

B. Implementation Arrangements

9. The EGP was implemented over five years (1994-1999). The ADB loan to the Government was made through an imprest account with BOM, in which the loan proceeds were deposited and from which the tugrik equivalent of subloans was disbursed to PCBs for onlending to eligible subborrowers. Through a subsidiary financing agreement between BOM and each PCB, BOM relent the tugrik equivalent of the ADB loan to the PCBs through an STD scheme. Loan disbursements by BOM were in the form of STD accounts opened by BOM with the PCBs. Each STD account with the PCB constituted a separate subsidiary loan by BOM to the PCB used exclusively for onlending to a corresponding batch of qualified subborrowers under the EGP.

C. Project Costs

10. The credit component was for SDR2.154 million (equivalent to \$3.09 million). The full amount was disbursed, with no variations.

² Footnote 1.

D. Project Schedule

11. The project loan, from ADB's Special Funds resources, was fully disbursed on 29 September 1999, five years after it became effective on 11 May 1994, and 21 months later than originally envisaged on 31 December 1997. The delay was caused mainly by the closing of operations of two of the original three PCBs (Ardyn Bank and Mongol Horshoo Bank), making it necessary to look for substitute PCBs; this search took time until willing PCBs (Agricultural Bank and Bayanbogd Bank) were found.

E. Engagement and Performance of Consultants and Procurement of Goods and Services

12. The TA provided consulting services as follows (person-months in parentheses): international services (20.8) included a project adviser (12), management information specialist (5.8), and microfinance specialist (3); domestic services (90) included the PCB coordinator (23), an NGO coordinator (43), and a Benefit Monitoring Evaluation (BME) specialist (24). As the EGP was mainly implemented by the consultants, the impact on the capacity of the PCBs and NGOs to prepare loan proposals and loan processing was weakened. However, the training greatly increased the capacity of PCBs, NGOs, and SCCs. The performance of the consultants was generally satisfactory except that (i) the credit guidelines they provided were too complicated for practical application due to the low level of technical skills of the staff of the PCBs, and (ii) the international BME specialist contracted by ADB was not fully successful in transmitting his system to the PMU staff because no permanent staff were assigned to the PMU.

13. The procurement of goods (one vehicle and office equipment) and training services was undertaken according to ADB's *Guideline for Procurement*. Procurement was undertaken satisfactorily.

F. Covenants

14. The status of compliance with loan covenants is in Appendix 2. The Project Completion Review Mission found the following loan covenants merited further comments:

- (i) Schedule 4, para. 13: The balance in the revolving fund as of 30 September 1999 was Tug2.21 billion (\$2.08 million) compared with Tug542 million (\$0.64million) in September 1998. The Loan Agreement stipulates that the revolving fund should be used to finance further loans during the project period. However, the fund had not been used to finance additional subloans except to bridge finance subloans while awaiting ADB's reimbursement from loan proceeds. BOM is reviewing options for utilizing the revolving fund and will inform ADB as soon as a policy is approved. Although the Loan Agreement stipulates the revolving fund will make further subloans "until completion of the EGP," there is still no provision for operation after project completion. At present, BOM is reviewing operational guidelines for the revolving fund. BOM was requested to inform ADB once a decision has been reached about the guidelines.
- (ii) Schedule 4, para. 22(iv): The onlending rates to subborrowers were below those charged by PCBs for similar loans; thus, the requirement that interest rates match "market" levels was not complied with. The rates charged to some subborrowers under EGP, 4 percent per month, tempted some to sublend at a higher rate than EGP's rate.

According to BOM, the market interest rates do not reflect the true demand for and supply of capital, as the capital market is itself distorted. The resulting interest rates could not be used as good indicators of capital scarcity. Thus, BOM indicated that requiring the rate charged to subborrowers to be the same as the market rate means using a distorted rate as benchmark.

- (iii) Schedule 4, para. 22(iv) 4: PCBs have not fully paid the service fees due to NGOs. The payment terms for the service fee were revised by the Interministerial Steering Committee in 1997 to a one-time payment upon full repayment of subloans.
- (iv) Schedule 4, para. 25: The Mission was concerned that MPPL first and MHSW later did not take an active role as EA in project implementation.
- (v) Submission of audited financial statements: Due to the lack of qualified auditing firms in Mongolia, audited financial statements were not submitted until ADB approved the reallocation of loan proceeds in 1998 to finance the engagement of private auditors. The latest audit for the EGP loan, dated 25 June 1999, indicates that if the outstanding loan balance as of 31 May 1999, which has not been adjusted by the exchange rate, is translated at the exchange rate prevailing on that date, there would be a loss of foreign exchange equivalent to Tug1.04 billion (\$1.15 million). This amount will have to be borne by the Government.

G. Disbursements

1. Characteristics of Disbursement of Loans

15. In July 1994, \$700,000 was released to BOM as an initial advance to the imprest fund to finance eligible subloans. From 1994 to 31 December 1998, a total of 567 subloans to 512 subborrowers, amounting to Tug2.55 billion (\$2.81 million), were disbursed by four PCBs: Agricultural Bank (Tolgoit Branch), Ardyn Bank, Bayanbogd Bank, and Investment and Technological Innovation (ITI) Bank. Agricultural Bank disbursed 39.3 percent of the total loan amount to 175 subborrowers; ITI Bank, 25.8 percent to 161 subborrowers; Bayanbogd Bank, 20.2 percent to 61 subborrowers; and Ardyn Bank, 14.7 percent to 170 subborrowers.

16. Disbursement of loans was extremely low in 1995, when Tug68.5 million (\$0.08 million), or 3 percent of the total loans, was released. The weak subloan disbursements in 1995 were due to (i) the PCBs' decision to tighten collection procedures and revise selection criteria, based on suggestions of the Mission; (ii) reluctance of PCBs to grant small-size loans due to perceived high transaction costs; (iii) severe financial problems at Ardyn Bank, which later ceased its lending activities; (iv) subjection of PCBs to credit extension ceilings in accordance with the strict money supply control measures of BOM; and (v) inappropriate credit guidelines that had been prepared by the consultant for the TA (para. 54).

17. After November 1996, there was a notable improvement in loan disbursements because of (i) an increase in the subloan limit from Tug1 million (\$1,113) to Tug4 million (\$4,432) for first loans, and to Tug12 million (\$13,500) for repeat loans; (ii) an improvement in PCBs' and supporting NGOs' quality of analysis and operational management; and (iii) more concerted and effective efforts of PMU, PCBs, and NGOs to collect outstanding debts.

18. The general activities of Ardyn Bank ceased in December 1996. The newly formed Reconstruction Bank absorbed the performing loans and the Mongolia Assets Recovery Agency took over the nonperforming loans. In June 1997, two banks (Agricultural Bank [Tolgoit Branch]

and Bayanbogd Bank) and one NGO (Liberal Women's Brain Pool) joined EGP, which increased the channels for credit. Loan disbursements peaked in 1998 when 46 percent of the total amount of loans was released. Subloans financed various economic activities such as food processing and manufacturing (52 percent in number and 49 percent in amount), trading (18 percent and 19 percent), and agriculture (9 percent and 11 percent). About 10 percent of the subloans were repeat loans.

2. Relending and Onlending Conditions

19. As approved by ADB in November 1994, the base rate to determine the relending rate from BOM to PCBs was changed from 1 percent below the monthly rate of the six-month time deposit to the weighted average cost of funds of the five largest banks. The onlending interest rates for subloans under the EGP were below PCBs' lending rates. The subloan interest rates ranged from 3.5 to 4.5 percent per month (54.1-69.6 percent per annum), while the PCBs' normal lending rates were 5-8 percent per month (79.6-151.8 percent per annum).

20. The lower lending rate for EGP loans compared with the PCBs' lending rates on other loans was justifiable. Presently, the savings deposit rate offered by commercial banks in Mongolia has dropped dramatically. The banks are paying about 5-8 percent annual interest on savings deposits. The banks' cost of funds is clearly dropping. Credit spread, or the difference between the rate paid to depositors for the most common interest-bearing accounts, and the interest rate charged on loans remain high. The lower interest rate charged to EGP customers does not represent any form of subsidization. Due to the higher repayment rates experienced by PCBs for EGP loans, the reduced credit spread reflected reduced credit risk, which indicates a rational pricing of credit.

21. However, real interest rates in Mongolia are very high considering that the inflation rate was low (about 10 percent), while the credit spread was very large. The high real interest rates have a negative effect on economic activity and contribute to disintermediation. Bankers attribute the high real interest rates to the high number of nonperforming assets, high deposit rate as compensation for devaluation expectations, excessive government demand for credit, higher operating expenses, and declining competitiveness. However, these reasons may not fully explain the high level of the real interest rates. BOM has advised the commercial banks to reduce their interest rates to reflect actual market conditions, but whether the banks will do so remains to be seen.

3. Subborrowers

22. The majority of the subborrowers were engaged in food processing and retail trading. Food processors accounted for 35.6 percent of the total number and value of loans. Retail traders were 14.6 percent of EGP clients, borrowing 15.4 percent of the EGP loan amount. Basic agricultural producers were 8.6 percent of subborrowers, with 10.5 percent of total borrowings. Apparel manufacturers were 8.8 percent of subborrowers, drawing down 8.2 percent of the EGP portfolio. Further details are in Tables A3.7-A3.10 in Appendix 3.

23. EGP loans were almost entirely short term. Of the 567 loans made, only 2 had over 18 months maturity period. About 12 percent of all loans were for more than one year, but less than 18 months (total of 68), with ITI Bank making most (51) of these loans. Slightly more than half of the loans were for periods ranging from six months to one year. Slightly more than 33 percent of the loans were for less than six months duration.

24. Agricultural Bank made no loans with maturity of over one year. Bayanbogd Bank made only two loans with maturities longer than one year. Of Ardyn Bank's loans, 90 percent were for

one year or less. ITI Bank offered the greatest variety in terms of loan maturities. Table A3.11 (Appendix 3) shows figures for EGP loans by maturity.

4. Repayment Performance

25. Repayment performance started to improve significantly in mid-1996 (from an average of 37 percent in 1995 to 95 percent in 1998). The average recovery rate of the loan principal as of September 1999 was 93 percent. This rate would have been higher but for the cessation of the normal operations of the Agricultural Bank and Bayanbogd Bank, the imminent closure of ITI Bank, and the closing of the PMU in March 1999. These events stopped the monitoring of loans, and no follow-up action was taken to collect outstanding loans. In addition, data related to the collection of interest on EGP loans are incomplete due to lack of appropriate mechanisms for data collection. Therefore, meaningful numbers that might form the basis for an analysis of subborrower performance related to the timely payment of interest are not available.

H. Environmental and Social Impact

26. Since the Project involved small-scale economic activities in trading, manufacturing, services, etc., the environmental impact was minimal and generally favorable.

27. The Project generated jobs by supporting diverse types of small- and medium-scale enterprises (SMEs), which are the most dynamic and labor-absorbing industries. The multiplier effect in terms of secondary employment generated by these SMEs in the future is expected to be great. The Project also had a substantial impact on encouraging women's participation in the economy by providing funds for financing microenterprises managed by women. Due to the training provided by the NGOs, most of the subborrowers are able now to perform credit operations by themselves, becoming more confident in engaging in formal financial operations.

I. Performance of the Borrower and the Executing and Implementing Agencies

1. Project Management Unit

28. Since the start of the EGP in 1994, the PMU had three different project directors, each responsible concurrently for many other duties within MHSW and none held a full-time position as project director. This resulted in a lack of tight management and adversely affected project ownership. While the turnover of project directors at the MSHW clearly created problems, so did the turnover of ADB staff in charge of the EGP. At the insistence of ADB, in mid-1997, two full-time supporting staff were assigned to assist the PMU and the domestic consultants, but, in practice, the daily management activities of project implementation were undertaken by the consultants without close supervision by the responsible ministry. After 31 March 1999, the PMU was terminated, its counterpart staff were transferred to other offices,³ and all activities related to the EGP ceased.

29. The Mission noted specific instances of weak project implementation by the PMU. The PMU was clearly not committed to following established procedures related to collection of data on subborrower performance and project benefits, i.e., data collection according to a questionnaire-based form was abandoned in favor of periodic, ad hoc surveying of subborrowers by telephone, with results not properly recorded. Due to this breakdown, much of the final benefit data presented to ADB was not auditable. Implementation of the monitoring information system and monitoring evaluation system activities was inadequate due in part to the lack of properly trained

³ As a consequence, the Project Completion Review Mission, arriving in October 1999, had great difficulty obtaining necessary data for this report.

staff. Significantly, few measures were taken to preserve EGP's primary data after project completion.⁴ A continued communication gap between the PMU and BOM resulted in lack of coordination at times.

30. Many of the problems that occurred may be attributed to inappropriate project design. First, MPPL or MHSW, a relatively weak ministry with little experience in banking and small business, seems, with hindsight, to have been a suboptimal choice as EA.⁵ The EGP existed outside of MHSW's normal operations, and did not seem to support or complement its regular activities. MHSW is understaffed, and the staff are relatively poorly paid and in some cases exhibited a low level of motivation. Understaffing and lack of motivation account, in large part, for the handover of day-to-day project duties to domestic ADB consultants at the PMU. MHSW appeared to have no direct benefit in managing the EGP except the prestige that might accrue for successfully implementing an externally aided project. This prospect was not sufficient motivation for ministry officials to assume effective command of the EGP.

31. Another difficulty faced by the EGP was that the loan did not include a provision for covering daily running costs for implementing and monitoring the EGP; all daily running costs were charged to and had to be covered by the TA funds. MHSW did not have sufficient counterpart funds to appropriately finance implementation and monitoring activities for the EGP.

32. The project design created a fixed set of relationships and responsibilities. For instance, specific banks were designated as participants in the EGP. When PCBs failed, or suffered internal difficulties, ADB had to make new arrangements. ADB expected the fixed project implementation arrangements laid out in the Loan Agreement, along with project objectives, to be understood and pursued by all participating institutions. All the institutions involved, particularly the banks, were participating in such a project for the first time. Given the lack of experience of PCBs and the difficult economic conditions, the EGP's implementation arrangements could not be easily followed due to lack of understanding and poor performance, and required constant adjustment by visiting missions. The PMU was not legally empowered or properly staffed with experienced project professionals to make even the smallest changes in the EGP. The PMU had little power to affect the behavior of the other project participants. The PMU's responsibilities were confined to information gathering and coordination.

33. ADB-contracted PMU staff showed great dedication to their work. They spearheaded the early, largely successful efforts to collect bad loans, and lobbied the banks to meet their obligations to the NGOs.

2. Participating Commercial Banks

34. Initially, the EGP was designed to channel credit to MSEs through three commercial banks: Ardyn Bank, ITI Bank, and Mongol Horshoo Bank. In September 1994, Mongol Horshoo Bank was merged with Ardyn Bank and in December 1996, Ardyn Bank was declared insolvent by BOM, and was closed. In June 1997, two additional banks, Agricultural Bank (Tolgoit Branch) and Bayanbogd Bank joined the EGP. Until the end of the EGP in December 1998, Agricultural Bank, Bayanbogd Bank, and ITI Bank were open for business and were participating satisfactorily. At present, none of these banks are in business—Bayanbogd Bank for lack of adequate capital as required by BOM, and Agricultural Bank and ITI Bank for insolvency. Except for Ardyn Bank, internal financial problems did not prevent the remaining banks from satisfactorily onlending project proceeds on a short-term basis. BOM recovered the value of the loans to PCBs at the maturity of the special

⁴ The Mission made a survey of all subborrowers to verify the benefits.

⁵ See para. 4 for reasons for selection of MHSW as Executing Agency.

time deposit regardless of subloan repayment, and therefore, the EGP carried a relatively low financial risk. These repayments by PCBs were deposited in a revolving fund maintained at BOM. Tables A4.1 to A4.9 (Appendix 4) provide information on the financial statements and ratios for the Agricultural Bank, Bayanbogd Bank, and ITI Bank. The analysis of the financial statements and ratios show deteriorating asset quality and increasing number of nonperforming loans.

a. Agricultural Bank

35. Agricultural Bank has had financial troubles throughout its history, dating from 1991. Initially, it was set up to channel credit to agricultural cooperatives and agroprocessing enterprises, many of which were also shareholders of the bank. The bank inherited the largest network of branches and subbranches from the former National Bank, and had, at one point, offices in every province and district. The bank's loan portfolio has historically suffered from a high percentage of nonperforming loans. Many of the early portfolio problems were the result of directed lending to SOE shareholders and loss-incurring agricultural enterprises. In addition, Agricultural Bank was saddled with "clearing loans" by BOM in 1993, which represented the obligations of SOEs to the former National Bank. Soon thereafter, however, the management amassed, on its own, a large portfolio of nondirected loans that turned bad. The bank management has been generally weak, and has proven unable—or perhaps unwilling—to control the activities of branch and subbranch managers, and to develop a true commercial credit focus.

36. During 1998, Agricultural Bank registered a loss of Tug4.7 billion (\$5.7 million). The loss resulted from the write-off of nearly 75 percent of its loans, which left the bank with negative equity of over Tug6 billion (\$7.3 million). Despite a chronically weak leadership, and lacking basic modern banking features, like a treasury department, many Agricultural Bank branches and subbranches have generated profits continually, by intermediating funds in their communities. Agricultural Bank is the conduit through which the Government maintains deposits and channels many important payments, including pension payments. This activity is presently carried out at a loss, but could be a source of income if the Government were to carry through on its promise to pay the full cost of such services. Agricultural Bank is presently under receivership by BOM. Due to its size and national network, and because there is sufficient reason to hope that with capable management it could become profitable, the bank is being restructured. There are plans to recapitalize Agricultural Bank in early 2000, using funds from the Government of Germany and possibly from the Mongolian Government, among other sources.

37. Agricultural Bank was a very active participant in the EGP, proposing in 1997 that its Tolgoit Branch in Ulaanbaatar be authorized to join the EGP. Its repayment performance, over 94 percent for EGP loans, shows that close attention to borrower selection and strong follow-up with borrowers can yield positive results. This repayment rate was the second highest among the four banks involved in the EGP, and was higher than the repayment rate on all other loans at the bank. Agricultural Bank provided the most loans, 175 in total (119 in 1998 alone), and achieved the highest tugrik volume of lending, equal to about Tug1 billion (\$1.11 million). The bank accounted for 30.9 percent of the total number of loans, and 39.3 percent of the total value of EGP loans. The average EGP loan size in Agricultural Bank was Tug4.10 million (\$5,438) in 1997 and Tug6.51 million (\$7,599) in 1998. During its two-year participation in the EGP, Agricultural Bank consistently had the lowest average loan size among the PCBs. Table A3.1 (Appendix 3) shows the lending performance of the banks, including repayment rates and average loan sizes, and Table A3.3 summarizes the bank's lending activity.

38. Agricultural Bank made 57 percent of the 100 EGP loans, in the Tug2 million-Tug4 million range (\$2,225 to \$4,432). In terms of volume, nearly 47 percent of the total loan volume was in the largest category, Tug10 million-Tug12 million (\$11,074 to \$13,289). Only about 2 percent of total

Agricultural Bank EGP loans were less than Tug2 million (\$2,216), the category that could be considered truly micro. Tables A3.5 and A3.6 (Appendix 3) show the loan size for the PCBs.

39. Agricultural Bank's Tolgoit Branch, in Ulaanbaatar, made most of its loans to enterprises in food processing. The broad category "food processing and manufacturing" combined with "agriculture" accounted for 49 percent of loans by number and 51 percent of loans by amount for the bank. Food processing was the largest single category of clients, 24 percent of the number of EGP loans and 24.1 percent of the amount, followed by retail trading, with 18.9 percent of loans and 19.7 percent of amount. Tables A3.7, A3.8, A3.9, and A3.10 (Appendix 3) show lending activity by category of client.

b. Bayanbogd Bank

40. Bayanbogd Bank is a small but profitable, family-owned institution. With the collapse of Ardyn Bank in 1996, Bayanbogd Bank was invited into the EGP, along with Agricultural Bank. BOM raised the minimum level of capital for commercial banks to Tug1 billion (\$1.11 billion) during 1998, to be applied to all banks by the end of 1999. As of the end of the 1998 fiscal year, Bayanbogd Bank showed a capital of Tug425 million (\$471,000), far short of the Tug1 billion (\$1.11 billion) minimum. With a capital-to-asset ratio of over 45 percent, an efficiency ratio of 49 percent, and return on assets of over 2 percent (figures for 1998), the bank is clearly operating safely and efficiently. For BOM, it seems that size counts more than efficiency or prudence of operation. Bayanbogd Bank relied very little on deposits to fund its investment and lending operations. Under BOM rules, the bank can continue in operation as a finance company, which means that it will no longer be allowed to accept deposits. At the end of 1998, deposits were only 20 percent of loans, which suggests that Bayanbogd could survive without access to deposits.

41. Bayanbogd Bank's repayment performance as a PCB was perfect: 100 percent of its EGP loans have been repaid to date, the highest among the four banks involved with the EGP. The bank made the least number of loans, 61 in total, and achieved the third highest volume of lending, equal to Tug516 million (\$0.57 billion). It accounted for 10.8 percent of the total number of loans, but 20.2 percent of the total value of EGP loans. The average EGP loan size for Bayanbogd Bank was Tug6.09 million (\$8,078) in 1997, and Tug9.89 million (\$11,538) in 1998. Table A3.1 (Appendix 3) shows the lending performance of the banks, including repayment rates and average loan sizes, and Table A3.3 summarizes the bank's lending activity.

42. Bayanbogd Bank went the furthest of all the PCBs in standardizing EGP's loan "product." Over 44 percent of total loans were Tug4 million (\$4,430) in size, accounting for nearly 21 percent of the bank's volume of EGP lending. The remaining 56 percent of its loans averaged Tug12 million (\$13,290), reaching 79.1 percent of the volume of Bayanbogd's EGP lending. Details are shown in Tables A3.5 and A3.6 (Appendix 3).

43. Bayanbogd Bank, in Ulaanbaatar, made most of its loans to enterprises engaged in food processing and agriculture. The broad category "food processing and manufacturing" combined with "agriculture" accounted for almost 64 percent of loans by number, and more than 72 percent of loans by volume. Food processing emerges as the largest single category of clients, 52.5 percent of the number of EGP loans and 51.2 percent of the volume, followed by agriculture, with 18 percent of the number and 19.4 percent of the amount of total loans. Tables A3.7, A3.8, A3.9, and A3.10 (Appendix 3) show the bank's lending activity by category of client.

c. Investment and Technological Innovation Bank

44. ITI Bank, a large and deeply troubled financial institution, has ceased operating. At the end of December 1998 its balance sheet showed negative equity of Tug20 billion (\$24.38 million). The bank had traditionally operated for the benefit of its shareholders, which included the Erdenet copper mine, along with other large joint-stock companies, many of which are SOEs. In 1998, ITI's loan portfolio yield barely covered interest expense, and administrative costs were greater than loan revenue, contributing to the massive deficit. The main reason was a high level of nonperforming loans. During 1999, BOM moved to close ITI Bank, sensing that there was no longer any salvageable banking franchises to preserve, unlike the case of Agricultural Bank, where the opposite conclusion was reached.

45. Despite ITI Bank's numerous financial troubles and its ultimate cease of operations, its EGP loans performed much better than the rest of its portfolio, with a repayment rate better than 88 percent. ITI Bank was responsible for the third highest number of loans, 161, and second highest volume, Tug659.5 million (\$0.73 million). ITI Bank's average loan size grew from Tug1.78 million (\$1,972) in 1994 to Tug10 million in 1998 (\$11,661). During the latter two years of the EGP, ITI Bank consistently had the highest average loan size. Table A3.1 (Appendix 3) shows the lending performance of the bank, including repayment rates and average loan sizes, and Table A3.3 summarizes the bank's lending activity.

46. More than 58 percent of ITI Bank's EGP loans were Tug2 million (\$2,225) or less in size, accounting for almost 25 percent of the volume of ITI Bank's EGP loans. In loan size, the greatest volume of its lending was in the range of Tug4 million (\$4,432) to Tug10 million (\$11,082). Details are shown in Tables A3.5 and A3.6 (Appendix 3).

47. ITI Bank made most of its loans to enterprises engaged in food processing and manufacturing, (41 percent) and to retail trading (21.1 percent). Food processing has the largest single category of clients, with 29.2 percent of the number of EGP loans and 35.2 percent of the volume, followed by retail trading, with 12.4 percent and 22.2 percent of total loans and loan volume, respectively. Tables A3.7, A3.8, A3.9, and A3.10 (Appendix 3) show lending activity by category of clients.

d. Ardyn Bank

48. The Project Completion Review Mission was not able to obtain information on Ardyn Bank's financial operations because records were not kept after the bank closed in 1996. Only information collected by the PMU on loans granted under the EGP are available. Ardyn Bank, participated in the EGP from 1994 through November of 1996, when it was closed. During that time, it provided 170 loans in total, amounting to Tug374.4 million (\$0.41 million). Although in 1995 and 1996 the bank was reported to have made many questionable loans, over 91 percent of the principal amount of its EGP loans have been collected. Ardyn Bank accounted for exactly 30 percent of the total number of loans, but only 14.6 percent of the total volume. Its average loan size was Tug1.91 million (\$2,116) in 1994, growing to Tug2.52 million (\$2,797) in 1996. Almost 57 percent of its loans were Tug2 million (\$2,225) or less in size, with close to 50 percent of the amount of loans falling into that small size range. Ardyn Bank's EGP clients were engaged mainly in food processing and manufacturing (70 percent of total loans, and 69 percent by volume), with services and others accounting for the next highest set of clients (17 percent of loans by number, almost 18 percent by volume). Food processors alone accounted for 48 percent of the bank's EGP portfolio, achieving about the same amount in terms of loan volume.

3. Participation of NGOs

49. Four NGOs (Mongolian Employers' Federation [MEF], Union of Production and Services Cooperatives, Mongolian Women's Federation, and Liberal Women's Brain Pool) participated in the EGP by assisting subborrowers to prepare loan applications, and then submitting these applications to the PCBs on the subborrowers' behalf. In exchange for this brokering service, the PCBs agreed to pay the NGOs a fee equal to 2 percent of the loan amount, usually after successful loan repayment by the subborrower. However, despite a change in the terms governing payment in 1997 allowing a one-time payment upon full repayment of a subloan, PCBs did not consistently pay the service charges due to the NGOs.

50. NGOs assisted in 233 subloans approved by PCBs. MEF assisted its members in the approval of 148 loans amounting to Tug539.6 million (\$0.59 million) from various PCBs. To date, 92 percent of the principal amount has been repaid. Union of Production and Services Cooperatives assisted 52 of its members to borrow Tug140.5 million, (\$0.16 million) with a repayment rate of about 81 percent. Mongolian Women's Federation accounted for 23 loans with a value of Tug79.7 million (\$88,320) of which 92 percent has been repaid. Since 1997, Liberal Women's Brain Pool has sponsored 10 successful loans worth Tug49 million (\$54,304), and showed a perfect 100 percent repayment rate on outstanding loans to date. Overall, the NGO-sponsored loans accounted for 41 percent of total loans, and 32 percent of the total value of lending under the EGP. Of the four NGOs, MEF made the most significant impact, accounting for 26 percent of loans, which in tugrik terms translated into 21 percent of total EGP loan activity. The contribution to the EGP in terms of number of loans and loan value did not exceed 9 percent for any of the other NGOs. Tables A3.2 and A3.3 (Appendix 3) show the NGOs' activity in the EGP.

51. Since the early stage of the EGP, NGOs' performance has improved substantially. Also, the involvement of women's NGOs had a substantial positive impact on women's participation in the EGP. Appendix 5 presents the financial statements of the NGOs for the past three years. These statements are unaudited, and were prepared using various methods. Still, it appears that all of the NGOs generate sufficient revenue to cover costs on a yearly basis. The lack of common accounting and auditing standards and any close scrutiny by outside agencies, combined with the very limited financial information at hand, however, makes it difficult to draw conclusions about the soundness of NGO operations. From a financial point of view, they are relatively opaque organizations. This is an important consideration for future projects, as many observers have wondered if the NGOs could be used directly as conduits for MSE or SME credit, as they are in other countries. The notion is worthy of discussion, but the issue ultimately comes down to the competence of managers to manage financial risks. The overall repayment performance of the NGO-sponsored subborrowers was less than the repayment performance of the PCBs overall. The NGOs did not prove more skillful than the banks in analyzing credit risk.

J. Performance of the Asian Development Bank

52. One inception, two special project administration, and six review missions were undertaken for the EGP. In general, ADB responded in an appropriate and timely way when the EGP faced implementation problems. The proactive role of ADB in securing the effective implementation of the EGP was shown when a special project administration mission was undertaken in November 1996 to address the very low repayment rate from the subborrowers—an average 37 percent for 1995. By recommending stricter loan recovery measures and loan analysis and operational management, ADB assisted the loan recovery rate to improve to 92 percent in 1998. Following a request from PCBs, ADB also allowed the subloan limit to be increased from Tug4.5 million (\$5,000) for first loans. Loans above Tug4.5 million (\$5,000) could only be disbursed for repeat loans to subborrowers that had successfully repaid earlier loans. The change helped the PCBs increase the

volume of loans made through the EGP. However, because of changes in ADB staff in charge of the EGP, some negative developments in the Project were not followed up properly (e.g. slow disbursement of subloans).

III. TECHNICAL ASSISTANCE

53. The Government requested ADB to consider providing a TA grant for institutional strengthening of relevant agencies, facilitation of the EGP, and social preparation and training of subborrowers. ADB provided a grant of \$598,000 equivalent from the Japan Special Fund to meet the costs of the TA. The TA also provided one vehicle, office equipment, and training. \$30,000 was utilized for consulting services: 2 person-months for one credit cooperative specialist who was fielded in August-September 1997, and \$28,495 to support training activities for the establishment of SCCs.

54. The consultants engaged for the TA generally performed well and the training provided greatly increased the capacity of PCBs, NGOs, and SCCs. However, the credit guidelines proposed by the consultants proved to be too complicated and restrictive, given the low technical skill of the subborrowers and PCB staff at that time. This slowed down the subloan disbursements until 1995, when new more adequate guidelines were adopted, helping to improve the rate of subloan disbursement.

IV. EVALUATION OF PERFORMANCE AND BENEFITS

A. Financial Performance

55. To determine the profitability of lending under the EGP, three representative subborrowers were studied in depth. One service enterprise, Davuu Company, a chain of three small restaurants, was examined. One food processor, Gum Company, a maker of packaged dairy products, was also studied, along with a retail store, Altan Otog Company. Financial results for at least the last three years were compiled and analyzed. Appendix 6, presents detailed financial information on all three enterprises. The financial results were not audited, and the enterprises' level of financial and accounting knowledge was very basic. For example, at first none of the enterprises included interest expense in their statement of profit and loss, preferring to subtract it from profit. In any event, two of the three subborrowers showed substantial profitability, in terms of the financial internal rate of return (FIRR). Davuu Company showed a 38 percent FIRR for 1998. Altan Otog showed an even higher FIRR for 1998, reaching 53 percent. Only Gum Company showed a low return, with a 9 percent nominal rate for 1998.

B. Economic Performance

56. During the appraisal of the EGP, no quantitative economic analysis was undertaken, since the variety of eligible subproject activity and size of investment did not allow for the derivation of meaningful assumptions to estimate a consolidated economic internal rates of return for the EGP.

C. Attainment of Benefits

57. The objective of the EGP was to create employment and income opportunities for the poor by providing credit financing for microenterprises and small business undertakings. The projected and actual target indicators are summarized in Appendix 7.

58. The results indicate that the EGP fell short of its primary objective of employment generation and poverty reduction. The EGP also fell short of the targeted number of subloans,

which reflects the lack of financial service infrastructure for microenterprise clients. These multiple targets were difficult, if not impossible, to achieve in the given extremely unfavorable economic and financial sector environment. The EGP had a positive impact on women's employment and skills development. This progress notwithstanding, the PMU's ability to perform BME was still limited.

59. Since the closure of two PCBs (Ardyn in 1996 and Mongol Horshoo in 1994), Bayanbogd Bank and Agricultural Bank (Tolgoit Branch), became PCBs. Under the TA, new credit procedures and manuals were established in 1996. Subloan portfolio quality improved significantly since 1997. Although the quality was not completely satisfactory, the existing large spread showed that PCBs could profitably lend to small enterprises. In this light, the EGP demonstrated that lending under difficult economic circumstances could be effective and profitable even if the PCBs were undercapitalized and were on the brink of insolvency.

V. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

60. Despite the financial turmoil affecting Mongolia, the EGP achieved a recovery rate above 90 percent of outstanding loans. This was achieved by strict and adequate supervision and monitoring of loan recovering operations as well as appropriate loan analysis procedures. The EGP proved that it is possible to implement successful credit programs provided the adequate monitoring and supervision mechanisms are in place.

61. Mongolian entrepreneurs are achieving substantially high rates of financial returns despite the inability to access capital. Growth is only partly supported by occasional access to short-term working capital loans, and they do not enjoy the benefit of sustained leverage, which serves to consistently boost shareholder returns. Many, if not most, EGP subborrowers have by hard work and careful management developed successful businesses. The banks have assisted them only to a minimal degree. Emerging in Mongolia, despite the hardships of the transition, is a group of strong SMEs clearly capable of further growth and expansion.

62. Small and micro-scale businesses, even those that show rapid growth in sales and profit, do not generally add large numbers of workers except under prosperous conditions. In times of high economic uncertainty, such as during the EGP, small business avoid employing added workers, with the consequent increase in fixed costs that higher employment entails. Neither the PCBs nor the NGOs applied the prospect of hiring more workers as a main criterion in the selection of borrowers. Proven business experience by the owner and the overall prospects for success were considered more important borrower selection criteria. Critically, the great majority of the loans were given for short-term working capital, not for longer term investment in additional capacity that might require staff increases. Given the difficult economic conditions during the EGP's period and the primarily short-term working capital nature of the EGP's loans, firm growth as measured by sales and profits might have been a more appropriate primary project target than employment, although employment should have remained an important measure of project impact.

63. The lending activity under the EGP could not be truly considered as microfinance, nor EGP beneficiaries as microenterprises. Average loan sizes were relatively high, ranging from about Tug3.6 million (\$4,000) to more than Tug9.9 million (\$11,000). Furthermore, the subborrowers were generally experienced in business, had formal business licenses, and were highly educated. The average subborrower beneficiary seemed to fit the profile of small and medium-size business, rather than that of a microenterprise. Microenterprises are usually more informal (unlicensed), often family-run businesses requiring much smaller amounts of capital. Although the EGP was apparently

conceived as a vehicle for assisting microenterprises, in practice it became a vehicle for assisting SMEs.

64. SMEs are the appropriate target group for projects that aim to promote economic growth and employment. In both developed and developing Asia, SMEs are often the biggest engine for growth, employment, and innovation in an economy. Projects that target the microenterprise sector may have a positive impact on poverty reduction, and provide growth and employment benefits secondarily. Nevertheless, SMEs are the greater contributors to economic growth. The Mission concludes that for poverty reduction, microfinance projects are appropriate.

65. The purpose of the interest rate control feature in EGP was to ensure that interest rates were not being offered on a subsidized basis. ADB sought to employ an easily understood rule to (i) the cost of funds, and (ii) the rate of interest charged to the borrower. In retrospect, the equations applied became unduly rigid, because "market" interest rates in Mongolia reflect huge inefficiencies. On the one hand, the cost of funds, particularly deposits, has been unusually high, although it is now falling. Banks have had to pay a premium to attract deposits, but despite the high premiums offered, few people trust the banks with their deposits. Banks seem to have learned that deposit pricing is characterized by a high degree of elasticity; offering a lower deposit rate does not necessarily result in a loss of deposits. On the other hand, credit risk management is generally still very poor, and banks have yet to develop clearly defined credit cultures. Loan losses have been chronically high, and credit spreads have remained high in an effort to cover the continuing high losses. Both the cost of funds and the market rate of interest to borrowers are evidence of the inefficiency of the markets. Thus, reliance on an equation targeting either the cost of funds or loan interest rates has proven unsatisfactory.

66. Despite the failure to meet the EGP's employment target, the EGP recorded some signal achievements. The EGP demonstrated the capacity of women to manage small businesses successfully, and to borrow and repay their debts. Women represented about 47 percent of the subborrowers, exceeding the project target of 30 percent. In addition, the PCBs provided loans to firms that they might have otherwise ignored: in most cases they gained trustworthy clients, at least for a short while. Many borrowers gained access to credit for the first time, and most reported that their loans led to increased sales and profits. Despite early difficulties with repayment, repayment rates by the close of the EGP exceeded 90 percent, much higher than the national average for commercial banks, and higher in almost all cases than the average for loan recoveries at the PCBs. The EGP proved that through careful borrower selection, aided by the application of basic, proven procedures in credit analysis, and combined with careful attention to monitoring and follow-up procedures, commercial lending to small businesses can be a safe and profitable business for banks in Mongolia.

67. NGOs, developed skills in business, financial, and credit analysis, and provided a valuable service in introducing their members to commercial banks. Many NGOs are now keen to create their own SCCs. The move is laudable but risky. The participating NGOs did not demonstrate any greater ability than the PCBs to select creditworthy borrowers or manage operational risk.

68. By the time the EGP closed, none of the original PCBs were operating. The PCBs faced an unstable macroeconomic environment and systemic problems that affected their performance. This reinforces the importance of an adequate regulatory framework and stable macroeconomic conditions. On the other hand, the PCBs, have performed extremely well under severe adverse economic circumstances; banks in Mongolia can do profitable business if they apply efficient business practices. Therefore, in terms of project sustainability, capacity building and strengthening of the credit delivery should be a project objective.

69. Considering employment generation as the EGP's main objective, the project was partly successful in achieving its original quantitative target. It fell short of its target to employ 10,000 workers in firms participating in the EGP: only about 5,360 workers were recorded under the EGP; but this number was from only 14 percent of the originally projected amount of loans to be made. The outreach of the EGP was limited. The continuing weakness among commercial banks amid a generally difficult economy can be a reason for not meeting the key targets. The banks could not provide the participating firms with sustained access to loans, and there were frequent cutoffs in lending due to bank financial difficulties that were external to the EGP. The project experience showed that participating businesses needed timely, continuous access to affordable capital in order to sustain growth. Although the subborrowers generally benefited from access to loans, at project completion, most of them had not been able to establish a relationship with a bank capable of meeting their future needs.

70. The EGP was successful in creating SCCs, strengthening institutional capacity of NGOs and subborrowers, providing opportunities for women to access credit and engage in profitable economic activities, and despite adverse economic conditions achieving high rates of repayment through strict and adequate supervision and monitoring of loan recovery operations.

B. Recommendations

71. When the EGP was designed, the distinction in Mongolia between microenterprise and small business was not as important as it has become today. An experimental project can afford some conceptual imprecision. Now, however, with the transition process further advanced and the various external funding agencies focusing on specific targets, ADB should be more precise in defining its target beneficiaries.

72. Concerning the interest rate policy, there is a need to evaluate the rates on an ongoing basis, provide broad guidelines, and retain an ability to intervene when rates are out of line. This can only be provided through a hands-on approach by a strong project agency that maintains a close watch on project activities and has the prerogative to set and enforce guidelines on participants.

73. An unanticipated project achievement was the creation of a small but growing SCC movement. The enthusiasm for SCCs, a new kind of grassroots financial institution, demonstrates the high demand for efficient microfinancial services in Mongolia that is not met by the commercial banks. This enthusiasm must be matched by a desire for safety and soundness in operation. These institutions hold great promise for the future provision of microfinancial services, but they need to be brought under an effective regulatory and supervisory regime. It is urgent that SCCs be brought under the umbrella of the nonbank financial institution laws, and be regulated and supervised by BOM.

74. The implementation of a project should not be put under the responsibility of a weak and understaffed PMU. Rather, a strong project agency with adequate staff resources and a strong, flexible mandate to meet project objectives is needed. Assistance should be provided for capacity building to the PMU for that purpose.

APPENDIXES

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PROFILES OF SAVINGS AND CREDIT COOPERATIVES^a
(as of 31 Oct 1999)

Key Indicators	CMC	MONCORD	Tsetsegtuya	Soyombotulga	Gunji
Date of establishment	02 Apr 1997	19 Nov 1997	11 Aug 1997	08 Aug 1997	30 Jul 1997
Date licensed by BOM	08 Jul 1997	08 Jul 1997	03 Nov 1997	23 Oct 1997	07 Aug 1998
Affiliated NGO	LEOS	LEOS	UPSC	UPSC	Women's Federation
Membership	47	83	54	115	33
Member characteristics	23 women 24 men	All women	39 women 15 men	54 women 59 men	30 women 3 men
Entry fee (one time)	1,000	2,000	1,000 (per year)	2,000	3,000
Monthly membership fee	0	500	0	2,000	0
Total assets	7,147,731	25,608,000	11,741,000	131,902,000	2,512,800
Capital	6,638,623	9,816,400	7,220,000	94,780,169	2,100,000
Loans	4,646,000	24,541,000	—	117,368,300	2,450,000
Savings	0	13,871,000	—	2,204,795	136,100
Loan interest rate (percent, monthly)	5.0	5.0	8.0	6.5	5.0
Savings interest rate (percent, monthly)	0.0	2.0	—	3.0	2.5
Average loan size	500,000	1,280,400	—	2,500,000	250,000
Maximum loan amount	8 x share capital	3,734,500	15,000,000	10,000,000	500,000
Loan maturity	1-3 months	3-6 months	1-3 months	3-6 months	3-12 months
Collateral requirements	Yes	Yes	Yes	Yes	Yes
Loan collection rate (%)	98	100	98	90	100

— = not available.

BOM = Bank of Mongolia, LEOS = Liberal Women's Brain Pool, MONCORD = Mongolian Saving Credit Cooperative, NGO = nongovernment organization, UPSC = Union of Mongolian Production and Service Cooperatives.

^a Figures in tugrik, except as indicated.

STATUS OF COMPLIANCE WITH LOAN COVENANTS
(as of October 1999)

Covenant	Reference to Loan Agreement	Status of Compliance
<p>Institutional Arrangements for Implementation Prior to the effective date, a Project Management Unit (PMU) will be set up in the Ministry of Population, Policy and Labor (MPPL) with adequate staff and MPPL official with appropriate seniority and experience will be appointed as Project Director.</p>	Schedule 4, para. 2	Complied with
<p>Within one month from the effective date, the Borrower will establish a high-level interministerial steering committee (ISC) to provide policy coordination and guidance for the implementation of the Project.</p>	Schedule 4, para. 4	Complied with
<p>Within one month from effective date Bank of Mongolia (BOM), MPPL, the participating commercial banks (PCBs) and the cooperating nongovernment organizations (NGOs) will enter into a Memorandum of Agreement specifying the role and responsibilities of each entity involved in project implementation, satisfactory to the Bank.</p>	Schedule 4, par. 5	Complied with
<p>The credit line under the Project will be channeled exclusively through the three designated PCBs: (i) Ardyn Bank, (ii) Investment and Technological Innovation Bank (ITI), and (iii) Mongol Horshoo Bank.</p>	Schedule 4, para. 6	Complied with.
<p>The (i) Mongolian Women's Federation, (ii) Mongolian Employers' Association, and (ii) Union of Production and Service Cooperatives will be the cooperating NGOs.</p>	Schedule 4, para. 7	Complied with
<p>The cooperating NGOs will: (i) promote and publicize the Project among their members and constituencies; (ii) identify potential beneficiaries; (iii) assist members in developing business plans, subloan applications, and financial statements; (iv) screen subproject profiles of subborrowers' capacity to repay subloans; (v) assess the potential subborrowers' capacity to repay subloans; (vi) conduct training for subborrowers in the areas of value formation and business principles; (vii) supervise and monitor subloan performance; and (viii) assist in subloan repayment collection.</p>	Schedule 4, para. 8	Complied with
<p>The Borrower may identify and accredit other suitable NGOs as cooperating NGOs in the course of implementation of the Project. To be qualified to participate in the Project, an NGO</p>	Schedule 4, para. 9	Complied with

Covenant	Reference to Loan Agreement	Status of Compliance
<p>must have (i) a well-defined membership or beneficiary constituency; (ii) established a formal program of microenterprise support as one of their member services; (iii) trained staff qualified to provide support to small-scale business; and (iv) a formal agreement and fee arrangement with one or more of the PCBs. More detailed eligibility criteria for the selection of cooperating NGOs will be agreed upon between the Borrower and the Asian Development Bank (ADB).</p>	Schedule 4, para. 10	Complied with
<p>Imprest Account The Borrower will cause BOM to draw from the imprest account and relend funds to each PCB through special time deposit (STD) accounts to be opened with the PCBs. Each STD with the PCB will constitute a separate subsidiary loan to the PCB and will be exclusively used for onlending to a corresponding batch of qualified subborrowers.</p>	Schedule 4, para. 11	Complied with
<p>Special Time Deposit The Borrower will cause BOM to disburse the initial relending funds to a PCB by opening the first or initial STD account with the PCB in an amount equivalent to a quarter of the PCB's projected one-year subloan disbursements.</p> <p>Subsequent releases of relending funds to the PCB by means of the STD mechanism will be based on pipeline of subloans submitted by the concerned PCB to BOM. The Borrower will ensure that BOM releases funds to the PCBs within 10 working days upon receipt of the PCB's request for funding.</p>	Schedule 4, para. 12	Complied with
<p>Revolving Fund Collections and interest earnings of the Borrower through BOM from the STDs with the PCBs will form a revolving fund to be operated by BOM for making further subloans until completion of the Project.</p>	Schedule 4, para. 13	<p>Being complied with. The balance in the revolving fund as of 30 Sep 1999 was Tug2,206 million (equivalent to about \$2.067 million) compared to Tug542 million (\$0.637 million) in Sep 1998. The Loan Agreement stipulates that the revolving fund should be used to further finance subloans during the project period. It was noted that it had not been used to finance additional subloans except to bridge finance subloans while awaiting ADB's reimbursement from loan proceeds. BOM is reviewing options for utilizing revolving funds, and will inform ADB as soon as it is approved.</p>

Covenant	Reference to Loan Agreement	Status of Compliance
<p>Onlending Rate The interest rate to be charged by the Borrower through BOM on STD with the PCB will be pegged to a base rate equivalent to the average quoted rate of the five largest commercial banks on their 2-month tugrik time deposits for the two months immediately preceding the disbursement of relending funds or opening of the STD by the Borrower through BOM with the PCB. STD monthly interest rates will be 1 percent lower than the monthly base rate.</p>	Schedule 4, para. 14(i)	Complied with
<p>STD Maturity The maturity of an STD will not exceed one year or such period as will allow ample time for PCBs to recover subloans covered by a particular STD; the STD will have a slightly longer maturity period than any of the corresponding subloans financed under it.</p>	Schedule 4, para. 14(ii)	Complied with
<p>Principal and interest on the STD will be payable in lump sum at the time of maturity of the STD.</p>	Schedule 4, para. 14(iii)	Complied with
<p>Separate Account for STDs All STDs will be collectively booked as a liability to the BOM acting on behalf of the Borrower under the account name: "Special Time Deposit." The term "Special Time Deposit" will be included in the present standardized chart of accounts for banks, under the general account heading: "Credit from the Bank of Mongolia."</p>	Schedule 4, para. 14(iv)	Complied with
<p>Liquidity or Legal Reserve Requirement To allow full use of the funds for onlending to subborrowers, the STDs under the Project will not be subjected to the liquidity or legal reserve requirements usually imposed by BOM on deposit accounts of PCBs.</p>	Schedule 4, para. 14(v)	Complied with
<p>Batching of Subloans Maturity of a particular STD will be matched with the maturity of the batch of subloans it is intended to finance. The PCBs will batch subloans by maturity when requesting for release of funds from the Borrower through BOM, to allow the latter to issue STDs with corresponding maturities.</p>	Schedule 4, para. 16	Complied with
<p>The Borrower through BOM will set the maturity of an STD to not more than one month beyond the maturity of subloans covered by the STD.</p>	Schedule 4, para. 17	Complied with

Covenant	Reference to Loan Agreement	Status of Compliance
<p>Subloan Processing Subloans under the Project will be processed and approved by the concerned PCB based on its assessment of the subproject's viability, subborrowers' managerial/entrepreneurial capability, and credit or character check of the subborrowers.</p>	Schedule 4, para. 18	Complied with
<p>Subloans will be appraised for feasibility and viability under existing market conditions to ensure that cash flows are sufficient to cover all direct costs, operating expenses and subloan amortization payments, and will yield positive returns to subborrowers.</p>	Schedule 4, para. 19	Complied with
<p>Subloan Disbursement Subloan proceeds may be disbursed by the PCB in lump sum, or may be staggered according to subproject needs.</p>	Schedule 4, para. 20	Complied with
<p>Subject to completion by subborrowers of the concerned PCB's legal documentation requirements, funds for subloans will be released by the PCB to subborrowers within one month after receipt of the proceeds of STD covering said subloans.</p>	Schedule 4, para. 21	Complied with
<p>Subloan Interest Rates The interest rate of subloans will be equal to the current lending rate charged by the concerned PCB on similar loans to microenterprises calculated on a diminishing balance basis.</p>	Schedule 4, para. 22(i)	Not complied with. The interest rates charged were 0.5-3.5% per month lower than PCBs' current lending rates.
<p>Subloan Maturity The maturity of the subloan will be based on subproject cash flows, but preferably will not exceed one year.</p>	Schedule 4, para. 22(ii)	Complied with
<p>Subloan Repayment The repayment and grace periods of subloans will be timed according to subproject cash flows, preferably in frequent and small installments as are usually considered best suited for medium to small-scale operations.</p>	Schedule 4, para. 22(iii)	Complied with
<p>Size of Subloans The size of individual subloans will not exceed \$5,000 tugrik equivalent and will be secured by acceptable mortgageable assets and guarantees.</p>	Schedule 4, para. 22(iv)(1)	Complied with. ADB approved on 29 Mar 1996 the increase of the maximum subloan size from \$5,000 in tugrik equivalent. Loans above \$5,000 could only be disbursed for repeat loans to subborrowers that had successfully repaid earlier loans.

Covenant	Reference to Loan Agreement	Status of Compliance
<p>Savings/Capital Build-up by Subborrowers Subborrowers will be enjoined to open a deposit account with the PCB and will be encouraged to save through some built-in savings and capital buildup schemes, based on subborrowers' cash flows.</p>	Schedule 4, para. 22(iv)(2)	Not complied with. BOM explained that banks are prohibited to force a borrower to deposit on condition of lending. This covenant, therefore, cannot be complied with.
<p>Training for Subborrowers Subborrowers will be enjoined to go through the training programs to be conducted under the Project in cooperation with the cooperating NGOs and the Executing Agency.</p>	Schedule 4, para. 22(iv)(3)	Complied with
<p>Services Fee to NGOs PCBs will pay a service fee, equivalent to 2 percent of the subloan granted, to be paid to the cooperating NGO, which assisted in subborrower prescreening and training, and in subloan supervision and recovery. The first half of the service fee will be paid upon subloan approval and the remaining half after full repayment of the subloan together with all accrued interest thereon.</p>	Schedule 4, para. 22(iv)(4)	Partially complied with. PCBs and NGOs have agreed that PCBs pay 1% on the first amortization and another 1% upon maturity of the loan. However, PCBs have paid to NGOs only 65 percent of the outstanding fees.
<p>Repeat Subloans Repeat subloans may be allowed provided that they are justified and validated according to the needs of the subproject and they are not to be used to restructure existing subloans to conceal the performance of doubtful accounts.</p>	Schedule 4, para. 22(iv)(5)	Complied with
<p>Supervision of Subloans PCBs will supervise subloans in coordination with the concerned cooperating NGO and will ensure that problem accounts are detected early enough and needed remedial measures are promptly instituted.</p>	Schedule 4, para. 23	Complied with
<p>Monitoring The Borrower and the Bank will closely monitor the implementation of the Project. All project parameters will be jointly reviewed by ADB and the Borrower annually, and if required, modifications will be made in project design on the basis of implementation experience.</p>	Schedule 4, para. 24	Complied with
<p>Benefit Monitoring and Evaluation (BME) MPPL will monitor the impact of the Project on the intended beneficiaries. Benchmark information will be obtained through subloan application forms and verified by the cooperating NGOs. Benefit monitoring activities will be incorporated in MPPL's management information system to be developed under the technical assistance (TA). The results of BME activities will be included in the quarterly progress reports to be furnished to ADB. MPPL will evaluate the benefits of the Project after it is completed and in accordance</p>	Schedule 4, para. 25	Not complied with. BME was largely done by consultants and not by MPPL or MHSW.

Covenant	Reference to Loan Agreement	Status of Compliance
with a schedule and terms of reference to be mutually agreed upon with ADB.		
<p>Environmental Aspects To mitigate the potential negative environmental impact induced by project activities, environmental awareness will be incorporated in the training program for the project staff and beneficiaries.</p>	Schedule 4, para. 26(a)	Complied with
In approving subloans, the PCBs will be required to give emphasis on an appropriate working place, and conditions to reduce air and noise pollution.	Schedule 4, para. 26(b)	Complied with
MPPL will coordinate with the Ministry of Nature and Environment to ensure that the Project will benefit from and will take advantage of the training facilities and materials provided under TA 1647-MON, approved by ADB in January 1992, for strengthening environmental assessment procedures. The Borrower will ensure that training in environmental impact assessment will be made available to staff from MPPL, PCBs, and the cooperating NGOs.	Schedule 4, para. 27	Complied with
<p>Women's Participation The Borrower, PCBs, and cooperating NGOs will make efforts to ensure that women are appropriately represented among the recipients of subloans. The training program to be developed for the project beneficiaries will pay particular attention to issues relevant for women.</p>	Schedule 4, para. 28	Complied with. About 47 percent of employees are women.
<p>Collection Performance Report PCBs will submit to MPPL and BOM collection performance reports on subloans including aging of accounts.</p>	Schedule 4, para.29	Complied with
<p>Information and Accounting Systems for STDs PCBs will maintain separate information and accounting systems for STDs and subloans financed under the Project for ease in monitoring. Relevant records will be made accessible to authorized representatives of BOM, MPPL, and ADB.</p>	Schedule 4, para. 30	Complied with
<p>PCB Reporting to BOM and MPPL PCBs will submit reports to BOM and MPPL within one month of the opening of the initial STD. The reports will contain relevant information on subborrowers, including type of subprojects or subloans, subloan amounts and purposes, date of disbursement, interest rates charged, and maturities.</p>	Schedule 4, para. 31(a)	Complied with

Covenant	Reference to Loan Agreement	Status of Compliance
PCBs will submit to BOM and MPPL periodic reports on all subsequent subloan releases containing the basic information above, including collection performance and aging of past due accounts.	Schedule 4, para. 32	Complied with
<p>Field Checks of Subborrowers</p> <p>To ensure PCBs proper utilization of relending funds and compliance in setting guidelines for the Project, MPPL and BOM will conduct periodic field checks of subborrowers and subprojects funded under the Project.</p>	Schedule 4, para. 33	Complied with
<p>Quarterly Report to the Bank</p> <p>The Borrower will furnish, or cause MPPL and BOM to furnish to ADB with quarterly reports on the execution of the Project and on the performance of each PCB.</p>	Article IV, Section 4.03(b)	Complied with
<p>Audited Financial Statements of PCBs</p> <p>The Borrower will cause each PCB to maintain separate accounts and financial statements audited annually and submit to ADB not later than six months after the end of each related fiscal year, certified copies of such audited accounts and financial statements of each PCB and the report of the auditors relating thereto.</p>	Article IV, Section 4.04	Complied with
<p>Audited Financial Statements of Imprest Account</p> <p>The Borrower will cause BOM to maintain separate accounts and records in respect to the imprest account in accordance with sound and generally accepted accounting policies. Such accounts will be audited annually by independent auditors acceptable to ADB. Certified copies of the financial statements and reports will be submitted to ADB as soon as available, but in any event not later than six months after the end of each related fiscal year.</p>	Schedule 3, para. 5	Complied with
<p>Project Completion Report</p> <p>After the closing date for withdrawals from the loan, but not later than six months after the closing date or such later date as may be agreed upon between ADB and the Borrower, the Borrower through MPPL will cause to be prepared and furnished to ADB a report on the utilization of the loan, execution of the subprojects, their costs, the performance by the Borrower of its obligations under the Loan Agreement, and the accomplishment of the purposes of the loan.</p>	Article IV, Section 4.03 (c)	Complied with

ANALYSIS OF LOANS

Table A3.1: Lending Performance of Participating Commercial Banks
(Tug '000)

Bank	Total Loans		Repayment		Past Due		Outstanding		Due and Current		Paid or Current	
	Number	Amount	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Ardyn Bank	170	374,400	342,153	91.4	32,248	8.6	32,248	8.6	0	0.0	342,153	91.4
Investment and Technological Innovation Bank	161	659,480	582,232	88.3	77,248	11.7	77,248	11.7	0	0.0	582,232	88.3
Bayanbogd Bank	61	516,000	465,981	90.3	0	0.0	50,019	9.7	50,019	9.7	516,000	100.0
Agricultural Bank (Tolgoit Branch)	175	1,005,000	693,766	69.0	58,122	5.8	311,234	31.0	253,112	25.2	946,878	94.2
Total	567	2,554,880	2,084,132		167,617		470,748		303,131		2,387,263	93.4

Table A3.2: Lending Activity of NGOs
(Tug '000)

Bank	Total Loans		Repayment		Past Due		Outstanding		Due and Current		Paid or Current	
	Number	Amount	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Mongolian Employers' Association												
ITI Bank	47	164,700	142,776	86.7	21,924	13.3	21,924	13.3	0	0.0	142,776	86.7
Ardyn Bank	58	132,900	127,215	95.7	5,685	4.3	5,685	4.3	0	0.0	127,215	95.7
Bayanbogd Bank	1	44,000	44,000	100.0	0	0.0	0	0.0	0	0.0	44,000	100.0
Agricultural Bank (Tolgoit Branch)	42	198,000	153,982	77.8	15,188	7.7	44,018	22.2	28,830	14.6	182,812	92.3
Subtotal	148	539,600	467,973		42,797	7.9	71,627		28,830		496,803	92.1
Union Of Production And Services Cooperatives												
ITI Bank	19	39,000	23,338	59.8	15,662	40.2	15,662	40.2	0	0.0	23,338	59.8
Ardyn Bank	10	18,500	18,500	100.0	0	0.0	0	0.0	0	0.0	18,500	100.0
Bayanbogd Bank	5	20,000	12,411	62.1	0	0.0	7,589	37.9	7,589	37.9	20,000	100.0
Agricultural Bank (Tolgoit Branch)	18	63,000	52,890	84.0	10,110	16.0	10,110	16.0	0	0.0	52,890	84.0
Subtotal	52	140,500	107,139		25,772	18.3	33,361		7,589		114,728	81.7
Mongolian Women's Federation												
ITI Bank	8	17,200	16,845	97.9	355	2.1	355	2.1	0	0.0	16,845	97.9
Ardyn Bank	4	8,000	8,000	100.0	0	0.0	0	0.0	0	0.0	8,000	100.0
Bayanbogd Bank	0	0	0		0		0		0	0.0	0	0.0
Agricultural Bank (Tolgoit Branch)	11	54,500	48,401	88.8	6,099	11.2	6,099	11.2	0	0.0	48,401	88.8
Subtotal	23	79,700	73,246		6,454	8.1	6,454		0		73,246	91.9
LEOS												
ITI Bank	0	0	0		0		0		0		0	
Ardyn Bank	0	0	0		0		0		0		0	
Bayanbogd Bank	0	0	0		0		0		0		0	
Agricultural Bank (Tolgoit Branch)	10	49,000	49,000	100.0	0	0.0	0	0.0	0	0.0	49,000	100.0
Subtotal	10	49,000	49,000		0	0.0	0		0		49,000	100.0
NGO Totals	233	808,800	697,358	86.2	75,023	9.3	111,442	13.8	36,419	4.5	733,777	90.7

ITI = Investment and Technological Innovation, LEOS = Liberal Women's Brain Pool, NGO = nongovernment organization.

Table A3.3: Summary of Lending Activities of Banks and NGOs

	No. of Loans	Percent of Total	Amount (Tug)	Percent of Total
Bank				
Agricultural Bank	175	30.9	1,005,000,000	39.3
Ardyn Bank	170	30.0	374,400,000	14.7
Bayanbogd Bank	61	10.8	516,000,000	20.2
ITI Bank	161	28.4	659,480,000	25.8
Total	567	100.0	2,554,880,000	100.0
NGO				
Mongolian Employers' Federation	148	26.1	539,600,000	21.1
Union of Production and Service	52	9.2	140,500,000	5.5
Mongolian Women's Federation	23	4.1	79,700,000	3.1
LEOS	10	1.8	49,000,000	1.9
Total	233	41.1	808,800,000	31.7

ITI = Investment and Technological Innovation, LEOS = Liberal Women's Brain Pool,
 NGO = nongovernment organization.

Table A3.4: Lending Activity by Year

Item	1994			1995			1996			1997			1998			Total	
	Ardyn	ITI	Subtotal	Ardyn	ITI	Subtotal	Ardyn	ITI	Subtotal	ITI	Subtotal	Agricultural	Bayanbogd	Subtotal			
Number of subborrowers	89	29	118	0	33	33	81	47	119	18	51	51	0	7	119	126	512
Number of loans	89	31	120	0	34	34	81	51	124	23	56	56	2	38	119	159	567
Amount of loans (Tug '000)	170,000	55,000	225,000	0	68,500	68,500	204,400	420,080	299,800	140,000	229,500	789,580	20,000	376,000	1,171,500	2,564,380	
Average loan size (Tug)	1,910,112	1,774,194	1,875,000	0	2,014,706	2,014,706	2,523,457	8,236,863	2,417,742	6,086,957	4,098,214	6,073,692	10,000,000	9,894,737	6,516,807	7,367,925	—
Average loan size (\$) ^a	4,625	4,296	4,540	0	4,259	4,259	4,324	10,931	4,143	8,078	5,438	8,060	11,661	11,538	7,599	8,592	—
Collection rate ^b (%)	100.0	66.8	91.9	0.0	86.1	86.1	84.2	93.8	88.8	100.0	95.2	95.3	0.0	100.0	89.2	91.1	92.1

— = not available.

ITI = Investment and Technological Innovation.

^a Tug/\$ exchange rate as follows:

1994	413
1995	473
1996	584
1997	754
1998	858

^b Collection rate is cumulative, reflecting collection of outstanding or past due loans in follow-on years.

Table A3.5: Loans by Size

Loan Size	Agricultural Bank Loans		Ardyn Bank Loans		Bayanbogd Bank Loans		ITI Bank Loans		Total	Percent
	Number	Percent	Number	Percent	Number	Percent	Number	Percent		
Up to Tug2,000,000 ^a	18	10.3	98	57.6	0	0.0	94	58.4	210	37.0
Tug2,000,001-Tug4,000,000	100	57.1	68	40.0	27	44.3	15	9.3	210	37.0
Tug4,000,001-Tug10,000,000	17	9.7	4	2.4	0	0.0	37	23.0	58	10.2
Tug10,000,001-Tug12,000,000 ^b	40	22.9	0	0.0	34	55.7	15	9.3	89	15.7
Total	175	100.0	170	100.0	61	100.0	161	100.0	567	100.0

ITI = Investment and Technological Innovation.

^a \$ equivalent figures vary by year. As of 12/3/98, \$1 = Tug903, would be as follows:

- (a) Up to \$2,215
- (b) From \$2,215 to \$4,430
- (c) From \$4,430 to \$11,074
- (d) From \$11,074 to \$13,289

^b Agricultural Bank made one loan of Tug44 million (\$48,726), and none larger than Tug12 million; ITI Bank made three loans of Tug12.4 million (\$13,721).

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Table A3.6: Value of Loans by Size

Loan Size	Agricultural Bank		Ardyn Bank		Bayanbogd Bank		ITI Bank		Total	Percent
	Tug	Percent	Tug	Percent	Tug	Percent	Tug	Percent		
Up to Tug2,000,000 ^a	29,000,000	2.9	185,800,000	49.6	0	0.0	170,500,000	25.9	485,300	0.0
Tug2,000,001-Tug4,000,000	385,500,000	38.4	166,300,000	44.4	108,000,000	20.9	37,400,000	5.7	697,200,104	32.1
Tug4,000,001-Tug10,000,000	119,500,000	11.9	22,300,000	6.0	0	0.0	270,410,000	41.0	412,210,018	19.0
Tug10,000,001-Tug12,000,000 ^b	471,000,000	46.9	0	0.0	408,000,000	79.1	181,170,000	27.5	1,060,170,126	48.9
Total	1,005,000,000	100.0	374,400,000	100.0	516,000,000	100.0	659,480,000	100.0	2,170,065,548	100.0

ITI = Investment and Technological Innovation.

^a \$ equivalent figures vary by year. As of 12/3/98, \$1 = Tug903, would be as follows:

- (a) Up to \$2,215
- (b) From \$2,215 to \$4,430
- (c) From \$4,430 to \$11,074
- (d) From \$11,074 to \$13,289

^b Agricultural Bank made one loan of Tug44 million (\$48,726), and none larger than Tug12 million; ITI Bank made three loans of Tug12.4 million (\$13,721).

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Table A3.7: Loans by Size

Sector	Agricultural Bank Loans		Ardyn Bank Loans		Bayanbogd Bank Loans		ITI Bank Loans		Total	Percent
	Number	Percent	Number	Percent	Number	Percent	Number	Percent		
Food processing and manufacturing	75	42.9	119	70.0	34	55.7	66	41.0	294	51.9
Trading	46	26.3	14	8.2	6	9.8	38	23.6	104	18.3
Agriculture	11	6.3	8	4.7	11	18.0	19	11.8	49	8.6
Service and others	43	24.6	29	17.1	10	16.4	38	23.6	120	21.2
Total	175	100.0	170	100.0	61	100.0	161	100.0	567	100.0

ITI = Investment and Technological Innovation.

Table A3.8: Value of Loans by Sector

Sector	Agricultural Bank		Ardyn Bank		Bayanbogd Bank		ITI Bank		Total	Percent
	Tug	Percent	Tug	Percent	Tug	Percent	Tug	Percent		
Food processing and manufacturing	442,500,000	44.0	259,600,000	69.3	272,000,000	52.7	279,430,000	42.4	1,253,530,000	49.1
Trading	257,500,000	25.6	32,900,000	8.8	48,000,000	9.3	156,600,000	23.7	495,000,000	19.4
Agriculture	71,000,000	7.1	16,000,000	4.3	100,000,000	19.4	81,020,000	12.3	268,020,000	10.5
Service and others	234,000,000	23.3	65,900,000	17.6	96,000,000	18.6	142,430,000	21.6	538,330,000	21.1
Total	1,005,000,000	100.0	374,400,000	100.0	516,000,000	100.0	659,480,000	100.0	2,554,880,000	100.0

ITI = Investment and Technological Innovation.

Table A3.9: Details on Loans by Sector

Sector	Agricultural Bank Loans		Ardyn Bank Loans		Bayanbogd Bank Loans		ITI Bank Loans		Total	Percent
	Number	Percent	Number	Percent	Number	Percent	Number	Percent		
Agriculture & livestock	11	6.3	8	4.7	11	18.0	19	11.8	49	8.6
Food processing	42	24.0	81	47.6	32	52.5	47	29.2	202	35.6
Apparel manufacturing	21	12.0	16	9.4	1	1.6	12	7.5	50	8.8
Other manufacturing	12	6.9	22	12.9	1	1.6	7	4.3	42	7.4
Construction	5	2.9	3	1.8	7	11.5	9	5.6	24	4.2
Wholesale trading	13	7.4	0	0.0	4	6.6	4	2.5	21	3.7
Retail trading	33	18.9	14	8.2	2	3.3	34	21.1	83	14.6
Restaurant & catering	12	6.9	1	0.6	0	0.0	9	5.6	22	3.9
Other services	12	6.9	22	12.9	3	4.9	20	12.4	57	10.1
Miscellaneous	14	8.0	3	1.8	0	0.0	0	0.0	17	3.0
Total	175	100.0	170	100.0	61	100.0	161	100.0	567	100.0

ITI = Investment and Technological Innovation.

Table A3.10: Details on Value by Sector

Sector	Agricultural Bank		Ardyn Bank		Bayanbogd Bank		ITI Bank		Total	Percent
	Tug	Percent	Tug	Percent	Tug	Percent	Tug	Percent		
Agriculture & livestock	71,000,000	7.1	16,000,000	4.3	100,000,000	19.4	81,020,000	12.3	268,020,000	10.5
Food processing	242,000,000	24.1	172,700,000	46.1	264,000,000	51.2	231,900,000	35.2	910,600,000	35.6
Apparel manufacturing	145,500,000	14.5	35,800,000	9.6	4,000,000	0.8	23,400,000	3.5	208,700,000	8.2
Other manufacturing	55,000,000	5.5	51,100,000	13.6	4,000,000	0.8	24,130,000	3.7	134,230,000	5.3
Construction	26,000,000	2.6	6,000,000	1.6	68,000,000	13.2	37,800,000	5.7	137,800,000	5.4
Wholesale trading	60,000,000	6.0	0	0.0	32,000,000	6.2	10,130,000	1.5	102,130,000	4.0
Retail trading	197,500,000	19.7	32,900,000	8.8	16,000,000	3.1	146,470,000	22.2	392,870,000	15.4
Restaurant & catering	64,000,000	6.4	2,000,000	0.5	0	0.0	27,130,000	4.1	93,130,000	3.6
Other services	103,000,000	10.2	49,500,000	13.2	28,000,000	5.4	77,500,000	11.8	258,000,000	10.1
Miscellaneous	41,000,000	4.1	8,400,000	2.2	0	0.0	0	0.0	49,400,000	1.9
Total	1,005,000,000	100.0	374,400,000	100.0	516,000,000	100.0	659,480,000	100.0	2,554,880,000	100.0

ITI = Investment and Technological Innovation.

Table A3.11: Loans by Maturity

Maturity	Agricultural Bank Loans		Ardyn Bank Loans		Bayanbogd Bank Loans		ITI Bank Loans		Total	Percent
	Number	Percent	Number	Percent	Number	Percent	Number	Percent		
Up to 3 months	0	0.0	5	2.9	0	0.0	22	13.7	27	4.8
3-6 months	87	49.7	15	8.8	17	27.9	33	20.5	152	26.8
6 months-1 year	88	50.3	133	78.2	42	68.9	55	34.2	318	56.1
1 year-1.5 years	0	0.0	17	10.0	0	0.0	51	31.7	68	12.0
More than 1.5 years	0	0.0	0	0.0	2	0.0	0	0.0	2	0.0
Total	175	100.0	170	100.0	61	100.0	161	100.0	567	100.0

ITI = Investment and Technological Innovation.

FINANCIAL STATEMENTS OF PARTICIPATING COMMERCIAL BANKS

Table A4.1: Agricultural Bank Balance Sheet^a
(Tug million)

Item	31/12/96	31/12/97	31/12/98
Assets			
Cash and short-term funds	1,945.5	1,860.2	1,243.3
Placement with other banks and financial institutions	104.2	927.0	471.4
Loans and advances, net	2,762.0	2,655.2	1,377.3
Loans to related parties, net	0.0	0.0	165.5
Fixed assets, net	961.5	1,445.4	1,459.4
Other assets, net	3,031.8	3,113.9	962.1
Total Assets	8,805.0	10,001.7	5,679.0
Liabilities and Shareholders' Equity			
Current accounts	1,879.4	2,069.6	1,804.7
Demand deposits	1,981.6	1,534.8	1,329.8
Time and savings deposits	2,625.2	3,434.6	3,401.2
Other deposits	0.0	97.8	80.9
Government deposits	3,175.7	4,029.3	4,365.1
Central bank loans	820.6	195.5	619.0
Other liabilities	793.1	663.7	626.5
Net Capital	(2,470.5)	(2,023.7)	(6,548.2)
Total Liabilities and Shareholders' Equity	8,805.1	10,001.7	5,679.0

^a 1996 balance sheet provided to 1998 Asian Development Bank Mission; 1997 balance sheet provided by the Bank of Mongolia;

1998 balance sheet from draft audited financial statements provided by the Bank of Mongolia. Financial statements do not reconcile in terms of net income and net capital.

Table A4.2: Agricultural Bank Income Statement^a
(Tug million)

Item	1996	1997	1998
Interest revenue	3,402.6	1,734.7	1,988.5
Interest expense	2,203.6	1,021.7	959.0
Net interest income	1,199.0	713.0	1,029.5
Fees and other income	341.7	570.4	339.4
Provisions for loan losses	1,468.1	113.5	4,494.6
Administrative expenses	1,756.1	1,149.0	1,535.4
Net before taxes	(1,683.5)	21.0	(4,661.1)
Taxes	0.0	0.0	0.0
Net Income	(1,683.5)	21.0	(4,661.1)

^a 1996 income statement provided to 1998 Asian Development Bank Mission; 1997 income statement provided by the Agricultural Bank; 1998 income statement from draft audited financial statements. Draft audited financial statements prepared by Arthur Andersen. Draft opinion unqualified.

Table A4.3: Agricultural Bank Key Financial Ratios
(percent)

Item	1996	1997	1998
Loan/Deposits	28.6	23.8	14.0
Core deposits/Loans (a)	234.8	265.1	423.6
Earning assets/Total assets (b)	32.6	35.8	35.5
Capital/Assets	—	—	—
Equity multiplier (c)	—	—	—
Asset utilization (d)	42.5	23.0	41.0
Interest expense/Total assets	25.0	10.2	16.9
Administrative expense/Total assets	19.9	11.5	27.0
Net interest margin (e)	13.6	7.1	18.1
Spread (f)	99.2	39.9	90.9
Efficiency ratio (g)	114.0	89.5	112.2
Profit margin	(45.0)	(0.9)	(200.2)
Provisions as % of beg. loan portfolio (h)	35.0	4.0	74.0
Return on Assets	—	0.2	—
Return on Equity	—	—	—

— = not available.

(a) Core deposits = Current accounts + Demand deposits + Time and savings deposits.

(b) Earning assets = Placements with banks & other financial institutions + Loans and advances, net + Loans to related parties, net.

(c) Equity multiplier = Total assets / Equity.

(d) Asset utilization = Total revenue / Total assets.

(e) Net interest margin = Net interest income / Total assets.

(f) Spread = Interest revenue / Earning assets - Interest expense / Interest-bearing liabilities.

(g) Efficiency Ratio = Administrative Expenses / Net Interest Income + Fees and other income.

(h) Provisions as % of beg. loan portfolio = Provisions for loan losses / Loans and advances, net + Loans to related parties, net + Provisions for loan losses.

Table A4.4: Bayanbogd Bank Balance Sheet^a
(Tug million)

Item	31/12/96	31/12/97	31/12/98
Assets			
Cash and reserves	35.9	87.8	40.0
Central bank bills	2.4	275.0	350.0
Claims on government	0.0	3.2	1.6
Loans, net	198.0	267.7	371.0
Other assets	189.0	0.4	0.5
Fixed assets	3.0	184.9	177.5
Total Assets	428.3	819.0	940.6
Liabilities and Shareholders' Equity			
Current accounts	15.1	55.9	71.6
Demand accounts	0.8	1.9	3.1
Time and savings deposits	2.1	1.5	0.7
Central bank loans	0.0	112.0	440.0
Other liabilities	0.0	233.4	0.0
Net Capital	410.3	414.3	425.3
Total Liabilities and Shareholders' Equity	428.3	819.0	940.6

^a 1996 balance sheet provided to 1998 Asian Development Bank Mission; 1997 balance sheet provided by the Bank of Mongolia;

1998 balance sheet from draft audited financial statements provided by the Bank of Mongolia. Financial statements do not reconcile in terms of net income and net capital.

Table A4.5: Bayanbogd Bank Income Statement^a
(Tug million)

Item	1996	1997	1998
Interest revenue	65.3	26.0	78.9
Interest expense	40.0	6.7	32.8
Net interest income	25.3	19.3	46.2
Fees and other income	0.0	1.8	0.0
Provisions for loan losses	12.0	0.0	0.0
Administrative expenses	7.6	13.6	22.8
Net before taxes	5.7	7.5	23.4
Taxes	0.2	0.0	3.4
Net Income	5.5	7.5	20.0

^a 1996 income statement provided to 1998 Asian Development Bank Mission; 1997 income statement provided by the Agricultural Bank; 1998 income statement from draft audited financial statements. Draft audited financial statements prepared by Arthur Andersen. Draft opinion unqualified.

Table A4.6: Bayanbogd Bank Key Financial Ratios
(percent)

Item	1996	1997	1998
Loan/Deposits	1100.0	451.0	492.4
Core deposits/Loans (a)	9.1	22.2	20.3
Earning assets/Total assets (b)	55.2	77.4	81.1
Capital/Assets	95.8	50.6	45.2
Equity multiplier (c)	104.4	197.7	221.2
Asset utilization (d)	15.2	3.4	8.4
Interest expense/Total assets	9.3	0.8	3.5
Administrative expense/Total assets	1.8	1.7	2.4
Net interest margin (e)	5.9	2.4	4.9
Spread (f)	(189.5)	0.9	4.6
Efficiency ratio (g)	30.1	64.5	49.4
Profit margin	8.4	26.9	25.3
Provisions as % of beg. loan portfolio (h)	—	—	—
Return on Assets	1.3	0.9	2.1
Return on Equity	1.3	1.8	4.7

— = not available.

(a) Core deposits = Current accounts + Demand deposits + Time and savings deposits.

(b) Earning assets = Placements with banks & other financial institutions + Loans and advances, net + Loans to related parties, net.

(c) Equity multiplier = Total assets / Equity.

(d) Asset utilization = Total revenue / Total assets.

(e) Net interest margin = Net interest income / Total assets.

(f) Spread = Interest revenue / Earning assets - Interest expense / Interest-bearing liabilities.

(g) Efficiency Ratio = Administrative Expenses / Net Interest Income + Fees and other income.

(h) Provisions as % of beg. loan portfolio = Provisions for loan losses / Loans and advances, net + Loans to related parties, net + Provisions for loan losses.

Table A4.7: Investment and Technological Innovation Bank Balance Sheet^a
(Tug million)

Item	31/12/96	31/12/97	31/12/98
Assets			
Cash and short-term funds	9,864.3	20,499.9	2,537.4
Placement with other banks	1,478.5	876.6	972.4
Loans and advances, net	13,482.1	5,736.8	9,853.8
Fixed assets, net	2,354.0	1,799.3	1,707.7
Construction-in-progress	0.0	589.8	135.7
Other assets	2,123.2	2,143.0	3,635.7
Total Assets	29,302.1	31,645.4	18,842.8
Liabilities and Shareholders' Equity			
Bank overdrafts	0.0	0.0	3,417.0
Current accounts	11,108.7	27,105.0	10,707.2
Savings deposits	602.2	530.4	611.5
Time deposits	3,056.1	4,553.3	1,255.6
Other deposits	5,420.1	178.6	1,427.4
Loans from domestic banks	2,990.0	741.4	2,083.9
Loans from foreign banks	2,325.5	3,252.6	4,733.8
Other liabilities	1,764.2	0.0	14,644.8
Net Capital	2,035.3	(4,716.0)	(20,038.3)
Total Liabilities and Shareholders' Equity	29,302.1	31,645.4	18,842.8

^a 1996 balance sheet provided to 1998 Asian Development Bank Mission; 1997 balance sheet provided by the Bank of Mongolia; 1998 balance sheet from draft audited financial statements provided by the Bank of Mongolia. Financial statements do not reconcile in terms of net income and net capital.

Table A4.8: Investment and Technological Innovation Bank Income Statement^a
(Tug million)

Item	1996	1997	1998
Interest revenue	4,416.9	3,516.7	2,908.8
Interest expense	3,279.2	2,189.8	2,114.4
Net interest income	1,137.7	1,326.9	794.3
Fees and other income	1,573.4	694.6	(637.7)
Provisions for loan losses	553.5	776.2	13,139.3
Administrative expenses	2,157.6	1,778.9	2,393.6
Net before taxes	0.0	(533.6)	(15,376.3)
Taxes	0.0	121.0	0.0
Net Income	0.0	(654.7)	(15,376.3)

^a 1996 income statement provided to 1998 Asian Development Bank Mission; 1997 and 1998 income statement from draft audited financial statements. Draft audited financial statements prepared by Arthur Andersen. Auditor offers no opinion on numbers.

Table A4.9: Investment and Technological Innovation Bank Key Financial Ratios
(percent)

Item	1996	1997	1998
Loan/Deposits	74.1	20.4	62.2
Core deposits/Loans (a)	129.3	489.4	129.3
Earning assets/Total assets (b)	84.7	85.7	70.9
Capital/Assets	6.9	—	—
Equity multiplier (c)	14.4	—	—
Asset utilization (d)	20.4	13.3	12.1
Interest expense/Total assets	11.2	6.9	11.2
Administrative expense/Total assets	7.4	5.6	12.7
Profit Margin	0.0	(15.5)	(677.1)
Net interest margin (e)	3.9	4.2	4.2
Spread (f)	5.8	6.9	16.3
Efficiency ratio (g)	79.6	88.0	1528.7
Provisions as % of beg. loan portfolio (h)	3.9	11.9	57.1
Return on Assets	0.0	(2.1)	(81.6)
Return on Equity	0.0	—	—

— = not available.

(a) Core deposits = Current accounts + Demand deposits + Time and savings deposits.

(b) Earning assets = Placements with banks & other financial institutions + Loans and advances, net + Loans to related parties, net.

(c) Equity multiplier = Total assets / Equity.

(d) Asset utilization = Total revenue / Total assets.

(e) Net interest margin = Net interest income / Total assets.

(f) Spread = Interest revenue / Earning assets - Interest expense / Interest-bearing liabilities.

(g) Efficiency Ratio = Administrative Expenses / Net Interest Income + Fees and other income.

(h) Provisions as % of beg. loan portfolio = Provisions for loan losses / Loans and advances, net + Loans to related parties, net + Provisions for loan losses.

FINANCIAL STATEMENTS OF PARTICIPATING NONGOVERNMENT ORGANIZATIONS

Table A5.1: Mongolian Employers' Federation Income Statement
(Tug)

Item	1997	1998	1999^a
Income	33,070,000	42,013,793	28,515,485
Expense			
Rent and utilities	5,971,000	9,579,594	6,898,747
Salaries	3,522,000	3,494,316	1,556,562
Tax, benefits, and allowances	1,049,000	663,920	411,960
Supplies and equipment	6,346,000	963,553	1,256,411
Depreciation	0	415,400	0
Communications	3,859,000	3,715,361	2,745,095
Research	0	1,510,800	985,123
Maintenance	124,000	688,514	2,913,667
Transportation	1,508,000	236,250	594,116
Training	8,991,500	9,016,184	7,353,160
Other	3,010,500	7,724,096	3,642,178
Total Expense	34,381,000	38,007,988	28,357,019
Surplus/(Deficit)	(1,311,000)	4,005,805	158,466

^a Information for the period January-July 1999

Table A5.2: Liberal Women's Brain Pool Balance Sheet
(Tug '000)

Item	31/12/96	31/12/97	31/12/98
Assets			
Cash on hand (Tug)	933	119	381
Cash on hand (\$)	6,875	137	1,945
Bank account (Tug)	2,026	1,034	14,415
Bank account (\$)	1,535	3	1,228
Accounts receivable	484	0	0
Subtotal: Current Assets	11,853	1,293	17,969
Supplies	269	469	762
Equipment	7,601	12,514	17,690
Other assets	82	82	0
Subtotal: Long-Term Assets	7,951	13,065	18,452
Total Assets	19,804	14,358	36,421
Liabilities			
Project payables	19,804	1,293	36,421
Total Liabilities	19,804	1,293	36,421
Capital			
Property	0	13,065	0
Total Liabilities and Capital	19,804	14,358	36,421

Table A5.3: Liberal Women's Brain Pool Income Statement
(Tug '000)

Item	1997	1998	1999
Income			
National Endowment for Democracy	34,960	23,441	24,768
Asia Foundation Funding	26,005	6,290	87,324
Konrad Adenauer Foundation	1,313	0	10,000
United Nations Development Programme	0	3,500	5,451
United Nations Children's Fund	0	0	3,000
Deutsche Gessellschaft fur Technische Zusammenarbeit	0	375	1,000
United States Agency for International Development	0	0	19,500
Embassy of the People's Republic of China	0	0	2,325
Other organizations funding	0	9,202	2,520
Forum registration fees	0	0	8,703
Membership fees	166	65	500
Donation	100	313	1,090
Government of Japan	0	0	17,250
Total Income	62,544	43,186	183,432
Expense			
Rent and utilities	7,771	7,771	9,807
Salaries	5,684	5,684	8,264
Tax, benefits, and allowances	2,567	2,567	4,797
Supplies and equipment	7,028	5,114	5,469
Training	5,601	4,261	1,382
Postage	2,523	2,524	4,102
Conferences, meetings	18,169	3,000	113,284
Bank charges	35	223	0
Seminar expenses	285	0	3,235
Radio program expenses	1,028	0	0
Project implementation expenses	0	8,747	9,089
Others	0	2,003	6,033
Total Expenses	50,690	41,893	165,463
Surplus/(Deficit)	11,854	1,293	17,969

Table A5.4: Union of Production and Services Cooperative Balance Sheet
(Tug)

Item	31/12/96	31/12/97	31/12/98
Assets			
Cash on hand	96,691	559,485	3,416,861
Bank account	379,063	19,628	4,579,313
Accounts receivable	1,000,000	7,995,594	42,035,227
Raw material	1,194,873	1,256,325	4,822,626
Finished goods	97,200	0	0
Supplies	188,650	414,046	414,046
Subtotal: Current Assets	2,956,478	10,245,078	55,268,074
Equipment	3,306,250	3,892,009	3,948,159
Other assets	0	0	0
Subtotal: Long-Term Assets	3,306,250	3,892,009	3,948,159
Total Assets	6,262,728	14,137,087	59,216,233
Liabilities			
Accounts Payable	0	7,842,303	52,624,905
Taxes Payable	0	15,170	35,438
Total Liabilities	0	7,857,474	52,660,343
Capital			
Property	6,262,728	6,193,650	5,983,637
Accumulated Earnings	0	85,964	572,253
Total Liabilities and Capital	6,262,728	14,137,087	59,216,233

Table A5.5: Union of Production and Services Cooperative Income Statement
(Tug)

Item	1996	1997	1998
Income	4,600,000	—	12,072,532
Expense			
Rent and utilities	1,009,000	—	3,405,350
Salaries	1,200,000	—	2,244,603
Tax, benefits and allowances	0	—	430,295
Supplies and equipment	685,600	—	657,716
Training	1,040,000	—	1,708,238
Insurance	0	—	0
Advertising	55,600	—	196,890
Travel	420,000	—	1,184,718
Depreciation	35,000	—	401,198
Transportation	0	—	865,455
Maintenance	0	—	0
Other	129,000	—	406,753
Total Expense	4,574,200	—	11,501,216
Income before Taxes	25,800	86,964	571,316
Taxes	0	0	85,027
Net Income	25,800	86,964	486,289

— = not available.

Table A5.6: Mongolian Women's Federation Balance Sheet
(Tug)

Item	31/12/96	31/12/97	31/12/98
Assets			
Cash on hand	3,522,942	2,580,523	4,951,418
Bank account	19,900,510	49,250,028	28,043,017
Accounts receivable	39,353,556	6,366,909	9,765,876
Other receivables	10,686,469	11,613,980	9,837,208
Packaging	171,562	171,562	0
Supply materials	439,940	5,410,605	4,568,188
Prepaid expenses		53,554,000	56,554,000
Subtotal: Current Assets	74,074,980	128,947,607	113,719,708
Equipment	462,082	36,982,303	76,793,061
Other assets	3,705,142	0	0
Subtotal: Long-Term Assets	4,167,224	36,982,303	76,793,061
Total Assets	78,242,204	165,929,910	190,512,769
Liabilities			
Accounts payable	220,368	68,056	192,114
Taxes payable	21,311	997	1,557
Insurance payable	159,885	18,813	0
Prepaid income	62,363,025	122,289,512	117,466,395
Subtotal: Short-Term Liabilities	62,764,589	122,377,377	117,660,066
Long-term payable	9,278,060	12,301,334	0
Total Liabilities	72,042,650	134,678,711	117,660,066
Capital			
State property	6,249,554	31,249,554	72,748,312
Accumulated surplus	0	1,645	104,391
Total Capital	6,249,554	31,251,199	72,852,703
Total Liabilities and Capital	78,292,204	165,929,910	190,512,769

Table A5.7: Mongolian Women's Federation Income Statement
(Tug)

Item	1996	1997	1998
Income	21,953,806	15,405,502	26,066,890
Expense			
Rent and utilities	1,610,400	3,010,800	5,103,542
Salaries and social insurance	3,192,368	3,749,490	4,766,279
Administrative and operating expenses	16,060,368	4,698,773	7,526,464
Communication	0	0	809,861
Travel and transportation	0	2,646,769	2,843,540
Conferences and training	0	0	2,318,777
Insurance	0	0	1,383,637
Advertising	196,000	240,000	1,210,400
Depreciation	227,574	435,912	0
Maintenance	667,096	622,111	0
Total Expense	21,953,806	15,403,855	25,962,499
Surplus/(Deficit)	(0)	1,647	104,391

SUBBORROWERS' FINANCIAL INFORMATION**Table A6.1: GUM Co. Ltd. Income Statement^a**
(Tug '000)

Item	1995	1996	1997	1998
Gross Sales	3,049	13,899	27,045	29,092
Cost of goods sold	1,484	10,103	19,729	20,760
Net Revenue	1,565	3,796	7,317	8,332
Operating Expenses				
Salaries	457	660	840	1,685
Rent and utilities	190	502	907	927
Transportation	201	1,249	2,715	1,521
Advertising	0	0	0	67
Legal and accounting services	31	0	40	0
Repair	0	100	364	0
Insurance	102	182	697	920
Social security tax	112	493	160	919
Others	357	326	672	0
Total Operating Expenses	1,449	3,513	6,394	6,040
Earnings Before Interest and Taxes	116	283	923	2,292
Interest expense	0	0	540	810
Income tax	17	43	56	244
Net Income	99	241	327	1,238

^a The company borrowed twice from the Agricultural Bank (Tolgoit Branch) for working capital (inventory): in 1997 (Tug4 million for 3 months @4.5 percent) and in 1998 (Tug6 million for 3 months @4.5 percent).

Table A6.2: GUM Co. Ltd. Balance Sheet
(Tug '000)

Assets and Liabilities	1995	1996	1997	1998
Current assets				
Cash	743	170	301	351
Accounts receivable	0	230	358	2,368
Inventory	0	177	56	3,005
Prepaid expenses	206	0	2	3,994
Total Current Assets	949	577	716	9,719
Property, Plant and Equipment, net	3,284	6,817	12,584	15,000
Total Assets	4,233	7,394	13,300	24,719
Liabilities and Owners' Equity				
Current Liabilities				
Accounts payable	59	91	0	0
Short-term loans payable	0	3,500	2,700	7,600
Salaries payable	2	0	10	0
Social security tax payable	66	0	0	0
Other short-term liabilities	2,902	0	0	629
Total Current Liabilities	3,029	3,591	2,710	8,229
Long-Term Liabilities				
Total long-term liabilities	0	0	0	2,700
Total Liabilities	3,029	3,591	2,710	10,929
Owners' Equity				
Capital stock	385	3,562	10,026	12,590
Retained earnings	0	241	565	1,200
Total Owners' Equity	385	3,803	10,590	13,790
Total Liabilities and Owners' Equity	3,413	7,394	13,300	24,719

Table A6.3: GUM Co. Ltd. Key Financial Ratios

Item	Percent			
	1995	1996	1997	1998
Sales growth		356	95	8
Gross margin on sales	51	27	27	29
Operating expenses as % of sales	48	25	24	21
Net margin	3	2	1	4
Return on assets	2	3	2	5
Return on equity	26	6	3	9

Table A6.4: DAVUU Co. Ltd. Income Statement^a
(Tug '000)

Item	1996	1997	1998
Gross Sales	37,843	42,181	48,508
Cost of goods sold	27,141	36,685	41,087
Net Revenue	10,703	5,496	7,421
Operating Expenses			
Salaries	2,108	598	687
Rent	2,506	1,285	1,414
Utilities	545	210	242
Advertising	35	78	97
Insurance	611	173	217
Depreciation	2	833	417
Others	3,627	873	1,004
Total Operating Expenses	9,434	4,050	4,077
Earnings Before Interest and Taxes	1,269	1,446	3,344
Interest expense			1,200
Income tax	190	217	502
Net Income	1,079	1,229	1,643

^a The company borrowed once from the Agricultural Bank (Tolgoit Branch) for working capital and equipment in 1998 (Tug4 million for 6 months @5 percent).

Table A6.5: DAVUU Co. Ltd. Balance Sheet
(Tug '000)

Assets and Liabilities	1996	1997	1998
Current assets			
Cash	1,779	3,125	3,897
Accounts receivable			
Inventory	604	229	552
Prepaid expenses			
Total Current Assets	2,383	3,354	4,449
Property, Plant and Equipment, net	1,337	1,372	2,105
Total Assets	3,720	4,726	6,554
Liabilities and Owners' Equity			
Current Liabilities			
Accounts payable	625	255	191
Short-term loans payable	0	0	2,000
Salaries payable	0	0	0
Social security tax payable	0	39	0
Other short-term liabilities	158	162	93
Total Current Liabilities	783	456	2,284
Long-Term Liabilities			
Total long-term liabilities	0	0	0
Total Liabilities	783	456	2,284
Owners' Equity			
Capital stock	2,936	4,270	4,270
Retained earnings			
Total Owners' Equity	2,936	4,270	4,270
Total Liabilities and Owners' Equity	3,720	4,726	6,554

Table A6.6: DAVUU Co. Ltd. Key Financial Ratios

Item	Percent		
	1996	1997	1998
Sales growth		11	15
Gross margin on sales	28	13	15
Operating expenses as % of sales	25	10	8
Net margin	3	3	3
Return on assets	29	26	25
Return on equity	37	29	38

Table A6.7: ALTAN OTOG Co. Ltd. Income Statement^a
(Tug '000)

Item	1995	1996	1997	1998
Gross Sales	5,500	52,000	74,500	106,430
Cost of goods sold	4,600	43,000	57,308	68,900
Net Revenue	900	9,000	17,192	37,530
Operating Expenses				
Salaries		540	900	3,600
Rent	300	1,440	2,560	7,200
Utilities		60	150	300
Transportation	144	1,344	4,500	8,740
Advertising		100	300	1,800
Total Operating Expenses	444	3,484	8,410	21,640
Earnings Before Interest and Taxes	456	5,516	8,782	15,890
Interest expense			900	3,240
Income tax	24	120	1,317	1,500
Net Income	432	5,396	6,565	11,150

^a The company borrowed twice from the Agricultural Bank (Tolgoit Branch) for working capital (inventory): in 1997 (Tug10 million for 2 months @4.5 percent), and in 1998 (Tug12 million for 6 months @4.5 percent).

Table A6.8: ALTAN OTOG Co. Ltd. Balance Sheet
(Tug '000)

Assets and Liabilities	1995	1996	1997	1998
Current assets				
Cash	—	—	—	2,708
Inventory	—	—	—	13,642
Total Current Assets	520	5,716	13,615	16,350
Property, Plant and Equipment, net		480	4,807	4,807
Total Assets	520	6,196	18,422	21,157
Liabilities and Owners' Equity				
Current Liabilities				
Loans payable	0	320	950	0
Total Current Liabilities	0	0	0	0
Long-Term Liabilities	0	0	0	0
Total long-term liabilities	0	0	0	0
Total Liabilities	0	0	0	0
Owners' Equity				
Capital stock	88	480	10,007	10,007
Retained earnings	432	5,396	7,465	11,150
Total Owners' Equity	520	5,876	17,472	21,157
Total Liabilities and Owners' Equity	520	5,876	17,472	21,157

— = not available.

Table A6.9: ALTAN OTOG Co. Ltd. Key Financial Ratios

Item	Percent			
	1995	1996	1997	1998
Sales growth		845	43	43
Gross margin on sales	16	17	23	35
Operating expenses as % of sales	8	7	11	20
Net margin	8	10	9	10
Return on assets	83	87	36	53
Return on equity	83	92	38	53

Table A7: Summary of Projected and Achieved Targets

Target Indicators	Target at Appraisal	Achievement as of 30 Sep 1999	Percent Realized
Number of Employees in Subprojects	10,000	5,360	54
New Jobs	1,900	1,556	82
Jobs Retained	8,100	3,804	47
Rate of Profitable Subprojects (percent)	At least 95	97	
Women Employees in Subprojects (percent)	At least 30	47	
Number of Subloans	4,000	567	14
Business in Operation 3 years after Subloan Approval (percent)	At least 70	96	
Skills Development Training for Microentrepreneurs	10 courses per annum (40 in 4 years)	19 (1995), 34 (1996), 25 (1997), 8 (1998) (86 in 4 years)	215
Participation in Training of Trainers Programs by End 1995			
Staff of NGO	10	31	310
Staff of PCB	6	13	217
Staff of Ministry	2	12	600

Source: Project Management Unit