



Mongolia: Senior Loan to Khan Bank for Supporting Micro, Small and Medium-Sized Enterprises

Project Name	Senior Loan to Khan Bank for Supporting Micro, Small and Medium-Sized Enterprises			
Project Number	47934-001			
Borrower / Company	KHAN BANK			
Country / Economy	Mongolia			
Location				
Type or Modality of Assistance	3136	Loan	Ordinary capital resources	USD 40.00 million Committed
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth Regional integration			
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships Private sector development			
Sector / Subsector	Finance / Small and medium enterprise finance and leasing			
Gender	Some gender elements			
Responsible ADB Department	Private Sector Operations Department			
Responsible ADB Division	Portfolio Management Division, PSOD			
Responsible ADB Officer	Gunawardhena, Manohari			
Project Sponsor(s)				
Description	<p>A senior loan of up to \$40 million to Khan Bank (KB) to provide funding for MSMEs. MSMEs contribute 70 percent of GDP and employ half of the workforce in Mongolia. As such, they are important to the economic success of the country and to its efforts to diversify the economy. Being a large territory, Mongolia's geographical branch penetration is one of the lowest in the world at 0.67 branches per thousand square km making access to finance a challenge for MSME's. The proposed loan supports the government's policy to develop a competitive and vibrant MSME sector in Mongolia. KB remained as Mongolia's largest bank in terms of loans and deposits with market shares of 23% and 26%, respectively, as of YE2013. The bank has also maintained its leadership in distribution networks with 528 branches and 335ATMs as of YE2013. KB's loan portfolio is \$1.55 billion as of December 2013 and is distributed as per the following: personal loans 49%, trade 16%, construction 10%, Agriculture 3% and others 22%. The bank's total assets are \$2.9 billion YE 2013. The bank expects its loan portfolio to grow by 25-30% at the end of 2013 lowering to 22% in 2015, with specific growth rates of 30-40% for MSMEs. Net income grew by 35% from \$36.4 million in 2011 to \$60.4 million as of YE2013. NPL's of the bank were 1.5% as of YE2013. KB Bank is owned by Sawada Holdings Co. Ltd. (formerly H.S. Securities) 54.4%. Sawada Holdings Co. Ltd. is a Japan-based holding company engaged in securities, banking, commodities, real estate and venture capital. The company is listed on the Osaka Stock Exchange. Tavan Bogd Trade Co. Ltd 23.0%, Tavan Bogd Group is one of the largest private conglomerates of Mongolia with its twelve affiliated companies, engaged in retail and whole sale, travel and tourism, manufacturing and food production. D. Hulan, 13.3% and International Finance Corporation (IFC) 9.3%.</p>			
Objectives and Scope	ADB assistance will lead to (i) increased contribution of MSMEs to gross domestic product; and (ii) increased access to credit by MSMEs in Mongolia. Growth of MSMEs in non-mineral-based resource sectors will help diversify and strengthen the resilience of the economy.			
Linkage to Country/Regional Strategy	An independent evaluation of ADB's assistance to the financial sector was conducted in 2008. Based on the analysis conducted and future challenges and opportunities in the financial sector, recommendations were put forward for future operations. These included (i) considering equity investments and loans to strengthen the operational capacity of Mongolian banks; (ii) using banks to channel credit to address the gap in the supply of rural finance; (iii) providing longer-term loans to meet the needs of MSMEs; and (iv) supporting the development of nonbank and capital market sectors. The proposed assistance to Khan Bank is therefore consistent with the recommendations put forward in this evaluation.			
Safeguard Categories				
Environment				FI
Involuntary Resettlement				FI
Indigenous Peoples				FI
Summary of Environmental and Social Aspects				
Environmental Aspects	Classified FI environment			
Involuntary Resettlement	Category C for involuntary resettlement			
Indigenous Peoples	Category C for indigenous peoples safeguards			
Stakeholder Communication, Participation, and Consultation	Khan Bank's environmental and social management system will include arrangements to comply with national labor laws and ADB's Social Protection Strategy to ensure adherence to internationally recognized core labor standards, including provisions prohibiting any discrimination against women in hiring and providing equal pay for equal work for men and women. The investment is classified under operations with some gender elements.			
Timetable for assistance design, processing and implementation				
Concept Clearance				21 Oct 2013
Credit Committee Meeting				19 May 2014

Approval

30 Jun 2014

Last PDS Update

20 Aug 2014

Project Page

<https://www.adb.org/projects/47934-001/main>

Request for Information

<http://www.adb.org/forms/request-information-form?subject=47934-001>

Date Generated

07 December 2023

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