



Preliminary Poverty and Social Analysis

Project Number: 57215-001
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MONGOLIA: Khan Bank Green Bond Investment Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 28 September 2023)

Currency unit	–	Mongolian Togrog (MNT)
MNT1.00	=	\$0.0002881927
\$1.00	=	MNT3,469.9

ABBREVIATIONS

ADB	–	Asian Development Bank
ESMS	–	Environmental and Social Management System
MSMEs	–	micro, small, and medium-sized enterprises
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	–	
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NOTES

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

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PRELIMINARY POVERTY AND SOCIAL ANALYSIS

Country:	Mongolia	Project Title:	Khan Bank Green Bond Investment Project
Lending/ Financing Modality:	Investment in Green Bond	Department/ Division	Private Sector Operations Department/ Financial Institutions Division

1. Poverty Analysis

The non-sovereign transaction is aligned with the ADB Country Partnership Strategy for Mongolia 2021-2024 that fosters inclusive social development and economic opportunity (Strategic Priority 1) and resilience for sustainable, green, and climate-conscious development (Strategic Priority 3). The transaction involves ADB's investment in a Green Bond issued by Khan Bank and to be listed on the Mongolia Stock Exchange. The proceeds of the ADB investment will be used to provide green financing to retail borrowers and enterprises in accordance with Khan Bank's Green Bond Framework that is in line with the green bond principles of the International Capital Markets Association. The investment will help stimulate the local capital market for green financing and address financing gaps and constraints, particularly those faced by the target group consisting of enterprises and households including micro, small, and medium-sized enterprises (MSMEs), women and women-led MSMEs. The target group is a sizeable contributor to the economy and employment. It is however considerably affected by macroeconomic volatility and has difficulty in accessing affordable credit. Providing access to green financing to the target group can also advance inclusive development and address inequality among women and other marginalized groups, especially in rural areas in participating in economic opportunities. Providing green financing opportunities is expected to contribute to enhancing the borrowers' resilience to climate change.

2. Poverty targeting

General Intervention Individual or Household (TI-H) Geographic (TI-G) Non-Income MDGs (TI-M1, M2, etc.)

The poverty targeting of this transaction is classified as general intervention. It will increase Khan Bank resources to fund green investments of its target clients. Among the beneficiaries are retail borrowers (including herders and households) and microenterprises which comprised 10% of Khan Bank's nascent green loan portfolio as of June 2023. Access to green credit has been limited due to various factors, such as limited economic opportunities due to Mongolia's geographic isolation, and inadequate lending processes that include a high reliance on collateral, instead of estimated cash income of low-income clients. Also, costly energy audits may impede access to green loans for MSMEs. Increasing the financing available for the target group along with other ongoing government reforms will result in expanded business, income, and job opportunities.

3. Preliminary assessment of the project's impact channels

Through making green financing more accessible to MSMEs and retail customers, the borrowers get the opportunity to sustain and grow their business operations. Such growth may result in

additional employment and local economic development that will benefit communities, including the poor and vulnerable.

4. Social Analysis

Mongolia's high dependence on coal for electricity and heating—about 81% of the total energy mix¹—accounts for about two thirds of the country's GHG emissions. It has resulted in severe air pollution in the country, which is linked to increased respiratory illnesses, especially during winter. Renewable energy only accounted for two percent in 2020 but has the potential to increase.² The Energy Conservation Law of Mongolia of 2015 sets out guidelines for efficient use of energy through audits and incentivizes consumers for implementing energy conservation measures. In addition, Mongolia's large livestock population contributes to high per capita GHG emissions.³ ADB's green bond investment will support finance sub-projects in energy efficiency, renewable energy, green infrastructure and sustainable agriculture and contribute to decarbonization in the energy, industry and agricultural sectors by providing green sub-loans to enterprises and households as defined in Khan Bank's Green bond framework.

4.1 Gender and Development

What are the key gender issues in the sector and/or subsector that are likely to be relevant to this project or program?

Mongolia ranks 96th out of 180 countries in the 2022 Gender Inequality Index with Mongolian women facing persistent challenges to reduce gender-based inequalities in reproductive health, empowerment, and the labor market.⁴ In addition, women's low rate of participation in politics and the labor force underscores the need to facilitate opportunities for female participation in decision-making, promote women's access to economic resources, and leverage their knowledge and abilities to contribute to sustainable development in the political, economic, environmental and social spheres.⁵ The importance of Green financing is rising in Mongolia. The Mongolia green taxonomy is supporting green investments through the financial sector by identifying and funding sustainable solutions to improve energy efficiency and address climate change challenges while also advancing gender equality.⁶ Increasing opportunities for women-led MSMEs to benefit from energy and resource-efficient products is considered crucial to achieve broad-based and sustainable growth in Mongolia. The share of women-owned businesses in the small and medium-sized enterprises sector is significant, approaching nearly 60% of micro-scale, family, and sole-entrepreneur-owned businesses.⁷ In 2015, 37.8% of the firms had women among their owners and 25% were at least 1/3 owned by women; women also comprised 42.3% of full-time workers and 35.6% of top management.⁸ While women entrepreneurship activity is significant in the Mongolian economy, with 33% of Mongolian firms having majority female ownership and an additional 11% having minority female ownership,⁹ green financing for women entrepreneurs is still at low levels.¹⁰ National data indicate women's high practice of saving, prudent cost conscious financial management taking out loans only when needed, leading to frequent borrowings but for lesser amounts than their male counterparts.¹¹ However, women's loan processing time have been found to be longer, their loan applications is more likely to be rejected, and if approved, their loans are at a higher average interest rate than men's.¹² Women are under-represented in the workforce: only 52% of women work compared to 67% of men.¹³ Fewer women than men work because women need flexibility for home responsibilities.¹⁴ Twenty two percent of women are out of the workforce because of childcare responsibilities compared to 2% of men.¹⁵ Women spend nearly three times as much time as men on unpaid care household duties.¹⁶ Women make up more than half of most bank employees in the financial sector but less are represented in executive management and boards.¹⁷

Does the proposed project or program have the potential to contribute to the promotion of gender equity and/or empowerment of women by providing women access to and use of opportunities, services, resources, assets, and participation in decision-making? Please explain. If yes, a gender action plan should be prepared during transaction TA or due diligence.

Khan Bank has already taken significant steps to advance gender equality through both its service and product offerings and its corporate policies and practices. Khan Bank's chair of the board and chief executive officer are female reaching a female share of 40% in the board, 51.3% in management positions, and 58% of other staff positions. During due diligence ADB Gender Team will look into how to support Khan Bank to further deepen its equal opportunity practices at the workplace and outreach to women clients in areas of product design and service delivery to women entrepreneurs and households including trainings, and targeted marketing and financial literacy initiatives. Actions include further enhancing practices or policies to advance gender equality by supporting female staff in career development opportunities greater than that required by law. ADB will agree with Khan Bank on a Gender Action Plan for implementation under this transaction.

*Could the proposed project have an adverse impact on women and/or girls or widen gender inequality? **No***

*Indicate the intended gender mainstreaming category: **Effective Gender Mainstreaming***

4.2 Participation and Empowering the Poor

The project's main stakeholders are Khan Bank's, Corporates, MSME, and household clients, including women-owned MSMEs. The corporates develop investments in renewable energy, energy efficiency, green buildings, pollution abatement and sustainable agriculture sectors. Among these projects, community stakeholders are involved in various capacities: as workers, as customers and as beneficiaries. A stakeholder engagement plan forms part of Khan Bank's corporate Environmental and Social Management System (ESMS) including a grievance redress mechanism. Civil society organizations are not directly involved in the project implementation and their participation is limited to information generation and sharing in accordance with law.

4.3 Social Safeguards

The project will not finance any sub-projects that will (i) result in involuntary resettlements (IR), and (ii) impact indigenous peoples (IP) and ethnic minorities, as well as their ancestral domains, customary land rights, and way of life. As part of its ESMS Khan Bank requires its staff to complete screening checklists for both IR and IP of loan applications to ensure that subprojects will not have IP and IR impacts. To date, Khan Bank reported that it has not financed any projects that have either IP or IR impacts.

4.4 Other Social Issues and Risk

The project will ensure adherence to core labor standards. Khan Bank requires an environment and social assessment for investments funding business projects with medium and high risks in various sectors including renewable energy, construction and industrial processes to mitigate any social issues and risks related to labor and working conditions, community health and safety, spread of communicable diseases and other social issues and risks.

5. Social Plans to be Developed as part of the Poverty and Social Analysis

Khan Bank's ESMS will be reviewed, and gaps identified and addressed during due diligence to ensure compliance with ADB SPS and ADB Social Protection Requirements. Should relevant gaps be identified during ADBs' due diligence relevant monitoring mechanisms would be established.

6. Transaction Due Diligence Resource Requirement

If required, ADB's Safeguards team will conduct due diligence on selected green projects to establish the robustness of Khan Banks ESMS for green investments and will agree with KB on measures to address any gaps.

¹ International Renewable Energy Agency (IRENA). (2023) [Energy Profile Mongolia](#). Abu Dhabi.

² Endnote 1.

³ CO2 emissions as reported on Climate Watch Database (accessed 11 August 2023)

⁴ United Nations Development Programme (UNDP). 2022. [Human Development Report 2021-22: Uncertain Times, Unsettled Lives: Shaping our Future in a Transforming World](#). New York.

⁵ Asia Foundation. 2022. [Gender Mainstreaming in the Mongolian Financial Sector and Guidelines for Developing Feminized Financial Products](#). Ulaanbaatar.

⁶ UNDP. 2022. [Country Programme Document for Mongolia \(2023–2027\)](#). New York.

⁷ International Finance Corporation. 2014. [SMEs and Women-owned SMEs in Mongolia Market Research Study](#). Washington.

⁸ World Bank. 2015. [Business Environment and Enterprise Performance Survey](#). Data Catalog.

⁹ World Bank. [Enterprise Surveys Data: Gender](#) (accessed 1 January 2023).

¹⁰ International Finance Corporation; and Government of Canada, Department of Foreign Affairs, Trade and Development. 2014. [SMEs and Women-owned SMEs in Mongolia: Market Research Study](#). Washington, DC.

¹¹ Mongolia National Statistics Office. 2020.

¹² Green Climate Fund. 2020. [Gender Action Plan for FP153: Mongolia Green Finance Corporation](#). Incheon.

¹³ National Statistics Office of Mongolia. 2020

¹⁴ European Bank for Reconstruction and Development. 2020. [Gender Statistics Assessment on Entrepreneurship](#). London.

¹⁵ National Statistics Office of Mongolia. 2020

¹⁶ UN Women. [Country Profile. Mongolia](#).

¹⁷ UNDP. 2021. [Integration of Gender Responsive Financing Practices: A Baseline Study of Gender Mainstreaming in the Mongolia Financial Sector](#). New York