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***The Market for Financial Services in Rural Mongolia  
Rural Finance and Sustainable Livelihoods***

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## Acronyms and Abbreviations

ADB	Asian Development Bank
ADRA	Adventist Development and Relief Agency
CGAP	The Consultative Group to Assist the Poor
DFID	Department for International Development
EBRD	European Bank for Reconstruction and Development
GDP	Gross Domestic Product
GTZ	Gesellschaft für Technische Zusammenarbeit
IFAD	International Fund for Agricultural Development
ILO	International Labour Organisation
IT	Information Technology
JICA	Japan International Co-operation Agency
KFW	Kreditanstalt für Wiederaufbau
NBFI	Non-Bank Financial Institution
PFI	Participating Financial Institution
RLF	Revolving Loan Fund
SLP	Sustainable Livelihoods Project
SME	Small and Medium-sized Enterprise
Tg	Mongolian Tugrik
UB	Ulaanbatar
UNDP	United Nations Development Programme
USD	United States Dollar

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# 1. Introduction

This study was prepared against a background of considerable international intervention in the financial markets in rural Mongolia. These interventions have had substantial impacts on the demand and supply side of the markets for rural finance in the country and the World Bank has identified the need to properly understand these impacts in the context of its own activities in the Sustainable Livelihoods Project (SLP). The current study poses a number of key analytical questions:

- (a) Is the financial market in rural areas sufficiently underdeveloped to warrant further injections of funds by the World Bank project in Phase II of the Sustainable Livelihoods Programme? What is likely to be the financial services landscape in rural areas in 5 years time? Who will be served and who will be excluded?
- (b) Are the financial markets really serving those that are targeted by the SLP?
- (c) Should we continue to orientate efforts to increasing the availability of loans in rural areas or is there a greater benefit to be gained amongst the target group from developing other aspects of the financial markets?
- (d) Are the institutional and legal arrangements sufficient to facilitate an expansion of the financial services sector? Is there a need to develop institutional capacity to support the development of financial services in rural areas?
- (e) Can the various “livelihood support” activities of the Programme be better co-ordinated to produce synergistic effects?

The report is presented in a format that summarises the key findings of three main research activities:

- (a) Field visits carried out in October, 2003 and April, 2004
- (b) Literature reviews
- (c) Survey of financial institutions and rural dwellers

The surveys were carried out in 8 aimags in February, 2004. In total, 424 respondents contributed to the survey of individual citizens. The purpose of the survey was to gather some insights into the economic status, income and wealth of

households in our target aimags and, against this background, to understand their interaction with the financial services sector in their location. We were interested in particular in household savings and investments, as well as their record of borrowing from financial institutions.

The survey of financial institutions involved interviews with the management of 20 branches of banks or NBFIs in rural locations. The purpose of the study was to understand the organisational structure of local financial institutions and the profile of financial services provided in rural locations. In addition, we sought to gain insights into the profile of clients and loan portfolio of institutions participating in the survey. The survey also elicited some general opinions of key issues in the financial services sector in Mongolia. Copies of the questionnaires used in both surveys can be perused in Annex 1.

The overall analytical approach in this paper is to place the various demand- and supply-side trends in the rural finance market in the context of the socio-economic environment that is evolving in the communities in which the rural finance market operates. The paper has 3 main sections. Section 2 outlines the socio-economic context for the operation of the rural finance market and identifies the reasons why a well-functioning financial market in rural areas is of critical importance. Section 3 describes the current operation of the rural finance market in Mongolia under supply-side and demand-side headings. Section 4 presents our conclusions and proposes a number of recommendations that seek to accelerate and deepen the progress that has undoubtedly been made in the delivery of financial services in rural areas in recent years.

## 2. The Socio-economic Environment

### 2.1 Demography

The population of Mongolia increased by over 4.3% in the period 1999-2002. This quite dramatic increase has arisen mainly due to substantially increasing life expectancy, with greater numbers of people, particularly in Ulaanbatar, surviving into later years. Interestingly, despite substantial increases in overall numbers, the 0-14 age group has contracted by almost 5%, the only cohort to do so.

Although the aggregate increase in urban population was about 31,000 in the period, this statistic conceals some important geographical dynamics. While the population of Ulaanbatar exploded by almost 90,000 in the period, many other urban centres have experienced substantial decline. At the same time, the number of people living in rural locations has substantially increased. In general terms, these statistics reflect two distinct types of internal migration. Firstly, there has been a substantial movement of more affluent people from the provincial urban centres to Ulaanbatar in search of better prospects in the capital city. On the other hand, those with fewer financial resources and no salaried employment have tended to drift to the rural areas where subsistence agriculture (usually either herding or labouring for herders) offers a relatively reliable survival platform.

**Table 1: Population Dynamics in Mongolia, 1999-2002**

	1999	2002	% change (nominal)
<b>Total</b>	<b>2373.5</b>	<b>2475.4</b>	<b>+4.3%</b>
<b>By Age</b>			
0-14	35.8%	32.6%	-4.9%
15-39	45.3%	46.8%	+7.5%
40 +	18.9%	20.6%	+13.8%
<b>By Sex</b>			
Male	49.6%	49.6%	+4.3%
Female	50.4%	50.4%	+4.3%
<b>By Location</b>			
Urban	58.6%	57.4%	+2.2%
<i>of which Ulaan Baatar</i>	32.0%	34.2%	+11.3%
Rural	41.4%	42.6%	+7.3%

## 2.2 Employment

For a variety of reasons, employment data in Mongolia are particularly unreliable and so a note of caution should be pinned to the data presented in Table 2. Nevertheless, some general trends can be observed. Firstly, total employment in the period 1999-2002 declined by more than 5%, caused mainly by a reduction in employment in the agricultural sector. Various factors, including *dzuds* and falling prices for agricultural products contributed to this decline. Nevertheless, agriculture continued to account for over 70% of all employment in 2002, compared to a figure of less than 40% in 1990<sup>1</sup>.

Employment in the services sector increased by over 25% in the period, although it still accounts for only 14% of total employment. Most of the increased service activity has occurred in Ulaanbatar, attracting workers mainly from provincial urban centres. Employment in financial services increased by 22% and now accounts for 1.7% of total employment.

**Table 2: Employment Structure in Mongolia, 1999-2002**

	1999	2002	% change (nominal)
<b>TOTAL EMPLOYMENT</b>	<b>582686</b>	<b>552500</b>	<b>-5.2%</b>
<b>Agriculture</b>	<b>74.3%</b>	<b>70.8%</b>	<b>-9.6%</b>
- in livestock	71.7%	70.5%	-6.7%
- in crop sector	2.6%	0.3%	-89.2%
<b>Industry</b>	<b>14.8%</b>	<b>14.7%</b>	<b>-5.8%</b>
- Manufacturing	10.0%	10.1%	-5.0%
- Construction	4.7%	4.6%	-7.6%
<b>Services</b>	<b>10.9%</b>	<b>14.5%</b>	<b>+25.6%</b>
- Retail, hotels and restaurants	2.8%	3.8%	+29.8%
- transport, storage & communication	6.0%	7.0%	+11.2%
- financial services	1.3%	1.7%	+22.1%
- real estate and other business activities	0.9%	2.0%	+118.0%

Source: Mongolian State Statistics Office

<sup>1</sup> As already noted, the importance of the agriculture grew significantly as the sector became increasingly used as a safety net for workers made redundant from manufacturing enterprise or the public service during the early years of transition.

## 2.3 Unemployment

Unemployment data, similarly, are often very unreliable in Mongolia. Indeed, the official statistics presented in Table 3 are intuitively inaccurate. Official figures show a decrease in the rate of unemployment in the period 1999-2002. In the context of substantial increases in the working age population (Table 1) and decreases in total employment (Table 2), one would have expected significant increases in the unemployment rate. The most likely explanation relates to the expanding importance of unrecorded subsistence agricultural activities (herding) and other activities, such as petty trading, in the shadow economy.

**Table 3: Unemployment in Mongolia, 1999-2002**

	1999	2002
<b>Unemployment rate</b>	6.3%	5.3%
<i>Of which</i>		
- With higher education	4.9%	8.9%
- With special secondary education	11.6%	10.9%
- Graduated occasional training centers	23.5%	12.2%
- Untrained	60.0%	68.1%

The educational profile of the unemployed in Mongolia reveals some interesting features. The increasing proportion of untrained people amongst the unemployed (increasing from 60% to 68% in the period 1999-2002) highlights an increasing lack of opportunity amongst the poorest of the poor. On the other hand, unemployment amongst those with higher education has also been growing – as animal husbandry has grown in importance while manufacturing and other salaried employment has fallen, so the value of higher education has been falling (and unemployment amongst graduates in many disciplines growing).

## 2.4 Output

The average GDP per capita in Mongolia in 2002 was about \$600 USD. The total value of output increased by about 15% in the period 1999-2002. This increase was driven primarily by substantial increases in the value of output in the industrial sector and by the growing importance of the transport, storage and communications sector. Despite the growth in manufacturing and services, livestock production, combined with mining and quarrying together account for almost half of the total value of economic output in Mongolia. While official figures show a 25% decline in the value of livestock production, it is likely that the decline is much less significant given the estimated size of the informal economy in the sector (ILO, 1999). Financial services account for about 3% of total output in Mongolia.

**Table 4: Output in Mongolia, 1999-2002**

	1999	2002	% change
<b>Agriculture (mln. tog)</b>	<b>38.3%</b>	<b>27.9%</b>	<b>-15.0%</b>
- livestock (mln.tog)	34.4%	22.0%	-25.4%
- crop sector (mln.tog)	3.9%	5.9%	+76.9%
<b>Industry (mln.tog)</b>	<b>47.2%</b>	<b>53.7%</b>	<b>+32.5%</b>
- Mining and quarring	24.3%	26.4%	+26.2%
- Manufacturing	14.3%	16.7%	+36.2%
- Electricity, heating	8.5%	10.5%	+44.1%
<b>Services (mln.tog)</b>	<b>14.5%</b>	<b>18.4%</b>	<b>+47.9%</b>
- Retail, hotels and restaurants	1.2%	1.1%	+8.9%
- transport, storage & communication	10.1%	13.2%	+53.1%
- financial intermediation	2.3%	3.0%	+54.6%
- real estate, and other business activities	0.9%	1.0%	+25.5%

## 2.5 Money and the Household in Mongolia

As employment in the official economy (particularly in manufacturing and public services) contracted during transition, households have been forced to return to the land for their survival. In the early years of transition, many lost their jobs in the factories or public service as indigenous companies were wiped out by global competition and declining support from the state. Without alternative employment in the emerging private sector, many invested their meagre savings in animals. In most cases, the new herding activities started very small in scale and today herding remains a subsistent activity for most people. In 2002, almost two-thirds of herders had less than 100 animals and 85% had less than 200. It is estimated that 300-400 animals is required to sustain livelihoods at a satisfactory level (Credit Mongol, 2003).

Given the small scale of herding activities, many families have had to combine animal husbandry with crop production and petty trading activities to create an income sufficient to pay for school fees, family events, and other common household expenses. Poorer families, with few animals, have often been taken on as casual labourers for better-off herding households in return for food, shelter, clothes, and/or cash.

For many households, survival strategies have involved a diversification of the portfolio of economic activities practised by the household. In many cases, families have deliberately broken up so as to engage in different activities in different locations: the father and older children often remaining in the rural areas to tend livestock while the mother engages in trading or other forms of micro-enterprise in the sum centre while the children attend school there.

This diversified economic activity is designed to ensure a certain protection from failures in particular markets and represents households' attempts to ensure reasonable household cash flow throughout the year. For example, herding households derive income chiefly from the sale of cashmere and wool in spring and from the sale of milk and other dairy products in summer. Households engaged in arable farming and vegetable production enjoy peak income flows during autumn harvest, a period that coincides with children's education expenses. For traders, Tsagaan Sar is the peak period of activity, although autumn is also busy for traders as people prepare for winter and for children's schooling. Despite this, families often find themselves short of cash at particular times of the year. In the absence of a government social safety net, people in rural areas have depended on each other and, to an increasing extent on financial institutions, to overcome cash deficiencies at these key times.

Many of the new activities practised by households take place in the informal sector. It is estimated that more than one-third of the entire working population of Mongolia engage in non-official activities (UNDP, 2001). Indeed, the life of most households in rural Mongolia appears autarkic and relatively self-sufficient. The interface between the household and official structures (consisting of, for instance, official employment, regular salary, or frequent use of public services) is clearly narrower than it was 15 years ago. As government influence on the household has declined, so survival has increasingly depended on a complex network of informal family and community supports and, in an increasing number of cases, by borrowing from financial institutions.

The use of money (especially in the countryside) represents an excellent example of household responses to transition. Money is seldom used as the medium of exchange for money is not widely available. Most of the means necessary for subsistence are produced at home or are produced in the home of a relative or close neighbour. If money is involved, it is in most cases simply lent or given away to close acquaintances for some short-term purpose and in such cases, it is not the medium but the object of exchange. Goods, including money, are exchanged in a way that emphasises the reciprocity and continuity of the personal relations between the actors in the exchange. It is interesting, in this context, to note recent observations that the burden of gift-giving at Tsagaan Sar and other such occasions has become more onerous since the onset of transition (World Bank, 2000).

It is, in the first place, this network of reciprocity that has allowed the worst affected households to survive. In spite of the onslaught of the market, even the most impoverished families continue to give away their home-produced food and to provide free personal services (such as repairs, animal care, etc.) to the fellow members of their community, apparently without any explicit calculation of returns. It is even argued that the motivation for many lenders in informal financial markets in rural areas has more to do with creating stable networks and

safety nets than with obtaining short-term financial returns. It is this web of social obligation, created through the offer of money, labour goods, and services that has become the new safety net for most households in rural Mongolia.

One of the fundamental reasons for the development of financial markets is to lessen the importance of safety nets based on social obligation and to reduce the inefficiencies that such systems entail. These inefficiencies arise, in simple terms, for two reasons. Firstly, the time it takes to build up the social networks directly reduces the productivity of labour and in many cases the "return" from such efforts is highly insignificant. Secondly, social and economic exchanges that rely on non-monetary media (e.g. barter) are inefficient because they normally require additional effort on both sides of the transaction to realise the value implicit in the exchange. Money-based economic systems, on the other hand, allow for more efficient investment of energies and resources into productive activities and are better suited to consumption smoothing when incomes are in trough. The following sections describe the market for financial services in rural Mongolia, the accessibility of rural credit and the nature and extent of demand for financial services in rural locations.

## 3. Financial services in Mongolia

### 3.1 Introduction

The Soviet period bestowed on Mongolia a financial services network, which principally acted as a distribution system for state transfers to the masses. This system comprised a fairly dense network of branches of the only state-owned bank as well as various cash points in rural post offices to distribute pensions and other social benefits. Salaries were sometimes paid through the banking system too. Loans were not available through the banks, and indeed there was no great demand for loans. Credit could be obtained through retail outlets for some consumer goods although, in relative terms, this form of credit was not very significant. In addition, small-scale credit facilities were sometimes established using voluntary staff savings in a particular work place. These “credit collectives” shared many of the principles of the credit unions found in some market-based economies in the same period<sup>2</sup>. These loan funds in the workplace tended to be small in scale and used solely for consumer spending. Finally, loans were sometimes available to employees of large enterprises; the repayments arranged as deductions in the monthly salary to the employee. Loans for private business and investment were everywhere unavailable.

In the period since the beginning of transition, the financial services sector has been developing rapidly. In 2002, the sector accounted for 1.7% of total employment (from 1.3% in 1999) and over 3% of output. In the late 1990s, AgBank was the only financial institutional with an extensive network at sum level but their lending policies were extremely conservative and only available to a limited number of clients: herders with a minimum of 350 animals; small business (mainly traders); and salaried individuals and pensioners. In the late 1990s, Mongol Post Bank also had several sum level branches but they did not offer any loans at all at that time. There were no Savings and Credit Co-operatives or NBFIs working at sum level in 2000. Most credit available at that time was based on barter, where herders pre-sold animals or animal products at fixed prices in return for goods or pensioners lodged their pension books with a shop owner to purchase goods on credit. The vast majority of credit to “ordinary citizens” in rural areas was provided by such informal sources. Since the end of the 1990s, the number of banks and non-bank financial institutions in the country has exploded with the considerable support of the international donor community. The regulatory and institutional framework governing the operation of the sector has also developed substantially. The pace of change in the regulatory environment has been extremely fast: in 2001, for example, 142 laws related to the financial services sector were passed or amended.

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<sup>2</sup> Indeed, there is a strong history of credit co-operatives in Mongolia, the first recorded as early as 1919 (UNDP, 2001).

The following sections consider current trends in the financial services sector in terms of the supply of services, particularly in rural Mongolia and in terms of demand, as enunciated by respondents to our survey of households carried out in February 2004.

## **3.2 The supply of financial services in rural Mongolia**

The supply of financial services has increased dramatically in Mongolia, particularly since the second half of the 1990s. The total loan portfolio increased from about \$33 million USD in 1999 to about \$190 million in 2003. The total loan portfolio at aimag level and below increased from about \$9 million USD (or about 27% of the national total) to more than \$54 million (or about 28% of the total) in the same period. The average size of loans has decreased substantially in UB in the period 1999-2003 although average loan sizes in UB (USD 1,200) are still substantially larger than those in aimag centres (USD 500) or in sums (USD 225). The average loan sizes are, in fact, a good reflection of the scale and value of economic activities taking place in the respective locations.

In 1999, only AgBank and XAC Bank loaned significant sums in rural areas; by 2003 Mongol Post Bank, Zoos Bank and Savings Bank had grown their rural business considerably (although Ulaanbatar remains most important for all but AgBank and XAC Bank). At present, AgBank is by far the most dominant in rural Mongolia - over 85% of all sum level bank branches are operated by AgBank. Mongol Post Bank currently has about 12% of the total number of sum level branches. Several NBFIs also began operations at aimag or sum level (Annex 2). Nevertheless, there is a general lack of competition in the rural banking sector in most sums, which is essentially reflective of the weak market for financial services in the rural areas.

### ***3.2.1 The branch network***

The increasing supply of credit has been accompanied by a significant expansion of the branch networks of banks and NBFIs. The total number of bank branches in the country has increased by more than one-third from 450 to over 600 in the period 1999 to 2003 (Table 5). The majority of these increases have, however, been located in the urban centres with the number of branches in UB more than doubling and the number in aimag centres increasing by more than 63%

**Table 5: Number of Bank Branches in Mongolia by location, 1999-2003**

	1999	2003	% change
In Ulaan Baatar	58	117	101.7%
At aimag level	60	98	63.3%
At sum level	332	390	17.5%
TOTAL	450	605	34.4%

International comparisons of the diversity of the branch network reveals some interesting features of the Mongolian banking sector (Table 6). On average, Mongolia has one bank branch for every 4,091 citizens. The equivalent number in Finland, Sweden, and the US (all countries with low population densities) is 2,632, 3448, and 3,778 respectively. The national figure for Mongolia conceals some important geographical differences. In Ulaanbatar, where the sector is still quite immature and where economic activity is weak by international standards, there are over 7,200 citizens per bank branch. As the banking sector matures further and the local economy continues to grow, there is a strong likelihood of further expansion of the branch network in Ulaanbatar in the next 5-10 years. On the other hand, in the areas outside UB, there are about 3,300 per bank branch, a figure similar to many international averages. Although one might expect, *ceteris paribus*, more branches per person in Mongolia given the low population density, the number of branches is obviously depressed by the low level of economic activity in rural Mongolia. It is difficult to envisage substantial further expansion of the branch network at sum levels in the coming years, with current modest growth rates in the number of sum-level branches likely to continue.

**Table 6: International Comparisons of the Density of Branch Networks**

	Population per branch	Population per employee	Population density per m <sup>2</sup>
Finland	2632	159	15
Sweden	3448	204	20
US	3778	139	28
Mongolia	4091	263	<2

### ***3.2.2 The geography of banking services***

The geographical distribution of bank branches at aimag and sum level closely reflects the economic geography of the country. The banking system is located close to the main areas of economic activity and to the main population centres. There is a proliferation of banking choices in Ulaanbatar and a good supply of banks in the aimag centres.

Although AgBank, and to some extent Mongol Post Bank, are seeking to serve sum level centres, the most remote rural areas naturally have the poorest range of banking services. In general terms, the sophistication of the services provided by banks and NBFIs declines as the geographical location becomes increasingly rural. According to our research, each sum level branch, on average, maintains 164 savings accounts and about 230 loan accounts. The average loan is about 250,000 Tg. Most branches also offer payment transfer facilities but few other services are generally provided.

The distribution of non-bank financial institutions (NBFIs) exhibits similar tendencies. The majority of NBFIs are located in Ulaan Baatar, with only a very small proportion working at sum level. It should be noted, however, that the main growth in the NBFIs sector has arisen through the establishment of NBFIs branches at aimag level - while the mainstream banking sector has focused expansion plans in the capital, many of the NBFIs have sought to exploit opportunities in apparently less competitive aimag centres throughout the country. In many cases, NBFIs have been provided financial incentives by the international donor community to serve communities outside of UB.

### ***3.2.3 Staffing Levels***

The number of loan officers employed by banks and NBFIs has grown exponentially (by almost 300%) in the period 1999-2003. Trends in the employment of loan officers have reflected the growth in the branch network with the greatest increase to be found in UB and the smallest increase at the sum level. The average number of loan officers per branch has increased from about 1 to 1.75 over the period 1999 to 2003 in UB and the aimags. The reported number of loan officers per branch at sum level is significantly less than that found in UB or in aimag centres (Annex 2).

The rapid growth in the branch network has not always been matched by the availability of suitably qualified staff, particularly in the rural areas. The expansion of some financial institutions has been slowed as a result (e.g. Credit Mongol has identified a lack of staff as a key obstacle to its development at sum level while others have had to make-do with poorly qualified personnel). While some of the larger institutions carry out their own internal training programmes, the overall impact of the weak availability of personnel has often been a reduction in the quality of the loan portfolio due to unprofessional appraisal of loan applications and poor monitoring of loan repayments. In many cases, the quality of the available collateral is often considered the most important indicator of the worth of a loan application – the ability of the borrower to generate sufficient funds to repay the loan is often not properly taken into account in appraisal of loan applications (ADB, 2003).

It is also interesting to compare the number of financial sector staff per capita across countries. In Mongolia, there are about 263 citizens per employee in the financial sector (Table 7). The corresponding figures in Finland, Sweden and the US are 159, 204, and 139 respectively. The relatively high ratio of citizens to staff in Mongolia, combined with low technological levels in the banking sector, reflects the relative weakness of the financial markets<sup>3</sup>. In a country of very low population density, the low staff numbers combined with low technological levels, may indicate a lack of access to financial services in some locations.

### ***3.2.4 Operational costs***

The operational costs of branch banking also reflect the level of sophistication of the services provided in them. At sum level, the average cost of operating a AgBank branch is about USD 1,600 per annum. Other commercial banks operating in the sums have similar operational costs. At the same time, operational costs are substantially higher in UB city, where AgBank, for example, has average annual operational costs of over USD 320,000.

### ***3.2.5 Interest charges***

Interest charges on loans range from between about 24% and 60% in 2003, depending on the characteristic of the borrower and the purpose of the loan. Interest charges do not vary too much between locations, although increasing competition at sum level has tended to force interest rates downwards in specific locations. However, as the UNDP's sub-sector review of micro-finance (2002) has pointed out, the real cost to borrowers can be substantially higher than the nominal rates usually quoted. In that report, an example was given of a one-year loan at a nominal interest rate of 48%. For this loan, it was calculated that the effective interest rate if bank fees and commissions were included was 55.5% and almost 80% if transaction and opportunity costs were further built into the calculation!

Current interest rates are undoubtedly placing a substantial brake on the pace of economic development in Mongolia. Apart from trading activities, there are few economic activities that can generate sufficiently high returns to easily repay loans at those rates and, at the same time, allow some scope for reinvestment in the business. Certainly, it is unlikely that herding activities are sufficiently profitable to allow loan repayment and development of the herd or herding methods. On the other hand, programmes to provide credit at subsidised rates have tended to fail dramatically. Firstly, the experience in Mongolia has been that "entrepreneurs" often borrow from the programme at low rates and then on-lend to local citizens,

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<sup>3</sup> In cases where the strength of financial markets were equal, and where those markets were served equally well by the financial services sector, one would expect the lower technology country (Mongolia) to have a lower number of citizens for each staff member

many of whom are in vulnerable positions, at higher (market) rates<sup>4</sup>. A further problem, particularly if the subsidised programme is of a large size, is the bias that it can introduce into the market. In some cases, subsidised interest rates make it impossible for financial institutions to compete with the subsidised loan product. In other cases, where local financial institutions are implementing the programme themselves, the loan products offered by the PFI can be confused and contradictory.

### ***3.2.6 Collateral***

In general terms, the financial services sector is becoming increasingly sophisticated in the collateral demands that it places on potential borrowers. Whereas in the relatively recent past, the financial institutions would only accept fixed assets (such as real estate, etc.), competition has forced banks to rethink collateral policies. Animals are increasingly being accepted as collateral with some institutions calculating security as the value of the skin (in the case of dzud, or other unforeseen agricultural problems). Given these developments, an ever-increasing number of households have sufficient collateral to access at least a micro loan (although Ag Bank, while lowering its requirements, still has a minimum collateral restriction of 200 animals). Nevertheless, a lack of collateral continues to prevent the poorest of the poor from accessing credit from the formal financial institutions. In addition, the absence of a suitable land ownership law is likely to be a longer term obstacle to the development of financial markets, particularly for larger-scale finance<sup>5</sup>.

It has been noted that there is often a seasonal variation in the collateral requirements of banks. The general tendency is for banks to increase security demands during the winter months when the danger of dzud, or other difficulties is greatest. The effect for the household, however, is that access to finance is curtailed during the season when it is most needed.

One of the other problems most commonly cited by the financial institutions in relation to collateral is the difficulty in establishing ownership of the property being offered as security. This is particularly true in the case where animals are provided as security on the loan.

### ***3.2.7 Loan use and loan products***

According to our reviews, well over 80% of the entire loan portfolio of the bank and NBF sector is considered to be “business loans”, including various loans for working capital. It is interesting to note, however, that the AgBank’s proportion of consumption loans has increased from 29% to 41% in the period 2001 to 2003

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<sup>4</sup> See, for example, ADB Loan Monitoring Report and Recommendations on the ASDP Credit Component (2003)

<sup>5</sup> It may also reduce the likelihood of long-term private investment in the land.

(Annex 2). AgBank's statistics probably provide a truer picture of the mix of loan purposes generally in the country (our own primary research shows that many borrowers are taking consumption loans which are later incorrectly reported as "business loans). The increasing number of consumption loans probably reflects a generally increasing confidence in the creditworthiness of rural dwellers.

Many international donors have attempted to introduce special loan programmes for particular purposes (such as the ADB's Agricultural Sector Development Project). The overwhelming conclusion arising from such programmes is that it is extremely difficult to implement a programme that specifies a particular loan use – apart from the practical difficulties in monitoring loan use, the fungibility of money will ensure that borrowed resources always tend towards those uses for which there is greater demand at that particular time. Indeed, it is questionable whether such loan use restrictions are desirable in rural areas, given the inseparability of most household activities in the countryside.

The loan products on offer are also gradually developing in response to the growing maturity of the finance markets. The maximum loan term is growing in all banks and NBFIs with most banks now offering loans for 2 years or more. Indeed, Zoos bank now offers 10-year loans, Trade and Development Bank 8-year loans and AgBank 5-year loans. This is a very welcome development indeed insofar as it reflects the continuing maturity of the market. In the rural areas, where there is relatively little cash circulating in the local economy, barter transactions continue to be very important. This reliance on barter trade means that it often takes longer to capitalise assets accumulated through the business activity, which, in turn, makes repayment of loans additionally difficult. In this context, loan terms often need to be longer than would otherwise be the case.

In addition to the changing loan terms, new trends are emerging in other aspects of the loan product. In particular, dedicated herder loans are becoming increasingly important in the overall loan portfolio as the financial institutions recognise the creditworthiness of herders and find innovative ways to put in place adequate security arrangements.

### ***3.2.8 The donor community***

The international donor community has played a very large part in the development of the financial services sector in Mongolia over the past 10 years. As Annex 3 illustrates, international donors have contributed almost \$50 million USD in technical assistance and loan finance in the last 8-10 years. This volume of assistance has, perhaps naturally, led to substantial debate and disagreement in political and community circles. The main areas of contention include:

- the administration of loans through the commercial banking system has led to accusations of unjustifiably high interest rates charged by PFIs (PFIs are accused of making excessive profits on the backs of the vulnerable groups that the donor loan was meant to serve).
- the analogous argument that more loans should be distributed through government structures, rather than through the banking sector (such as Revolving Loan Fund under the Poverty Alleviation for Vulnerable Groups Project financed by the World Bank)
- too much lending to traders and not enough focus on the vulnerable groups, especially in rural areas
- loan conditions are too “bureaucratic”
- very slow disbursement of the loans

Amongst recipient communities, there is often the perception that the donor programmes are “assistance” or “entitlements” rather than commercial loans (ADB, 2003). Nevertheless, the donors’ general insistence on applying good banking practice to their micro-finance activities has led to a gradual reduction in the distinction between donor programmes and commercial banking products.

### ***3.2.9 Community and informal sources of finance in rural areas***

In discussing the supply of financial services in Mongolia (particularly in the rural areas), it is worth noting that there are very many credit sources in every local community that have no direct link with the regulated financial services sector. Traders, agro-processors, shopkeepers, friends and relatives, etc. were perhaps the most important source of credit in rural areas until the emergence of AgBank at the end of the last decade. As our surveys show below, such informal sources remain extremely important in the rural areas, especially for those in lower and middle income groups. Shops, for example, not only lend to customers, but also to each other. Traders and agro-processors continue to be one of the most important credit sources for herders. It is likely that these informal suppliers of credit will remain important in rural areas for some considerable time.

Pawn shops, of which there are about 800 in the country and 200 in rural areas, are also a significant supplier of credit, mostly to students and public sector employees. The pawn shops typically charge between 6 and 15% per month.

Savings and Loans Co-operatives, which boast a long history in Mongolia, are becoming increasingly important in providing financial services. There are currently about 140 registered Savings & Loans Co-operatives with about 4,500 members, of which about 50% are located in rural areas. Average loan size is about \$250 USD.

Overall, there appears to be a very ample supply of credit finance in rural Mongolia, particularly in the regions where the international donors are operating (Annex 3). In Uvurkhangai, for example, the MDF programme alone has made an average of about USD \$10 credit available to every citizen over the age of 14 (or nearly \$40 USD for every household). In addition to the World Bank Programme, the ADB and World Vision have been implementing large micro-finance projects in the aimag, while smaller but significant projects have also been implemented in Uvurkhangai by the UNDP, Mongolian Women's Federation, and the Canadian Co-operative Association (Credit Mongol, 2003). In addition to donor efforts, it is estimated that the commercial banks have a loan portfolio of well over \$50 million in rural areas (or an average of more than \$50 for every citizen over the age of 14). In this context, there would appear to be no general lack of micro-finance in rural areas. It is, of course, the question of accessibility to the available resources that occupies most policy makers and international donors. These issues are addressed in the following section in our discussion of the demand side of the market for rural finance.

### **3.3 The Demand for Financial Services in Mongolia**

While the level of understanding of the financial markets in rural Mongolia has been increasing<sup>6</sup>, a need was identified for further, more precise, study of the aimags served by the SLP project. The two surveys that we carried out as part of this study aim to contribute to the general store of knowledge about the supply and demand of micro-finance in rural areas while at the same time informing SLP decision-makers for future assistance in this area. Much of the following discussion draws on these survey data, together with the various previous studies and field visits carried out in the preparation of this paper.

#### ***3.3.1 Usage of financial services***

At the general level, about 90% of the total population uses bank services at least once a month, but most of this usage refers to the draw-down of pension payments and other state transfers through the banking system<sup>7</sup>. As our own survey shows, the usage of banks or NBFIs for savings or borrowing, while increasing dramatically, is nevertheless significantly lower.

Overall, the number of borrowers from banks and NBFIs has increased in Mongolia by about 500% in the period 1999 to 2003. Today, up to 15% of the

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<sup>6</sup> Amongst the studies that have been carried out, the UNDP's sub-sector review of microfinance in Mongolia (2002) and preliminary results from JBIC's Pilot Study on Microfinance are perhaps the most useful. The UNDP's report drew heavily from a 2001 survey, entitled "*Financial Services for Mongolian Households: A Market in Transition*" carried out by Mongolian NGO "Sant Maral". Other market studies have been carried out by the ADB, JBIC and XAC/GE Group.

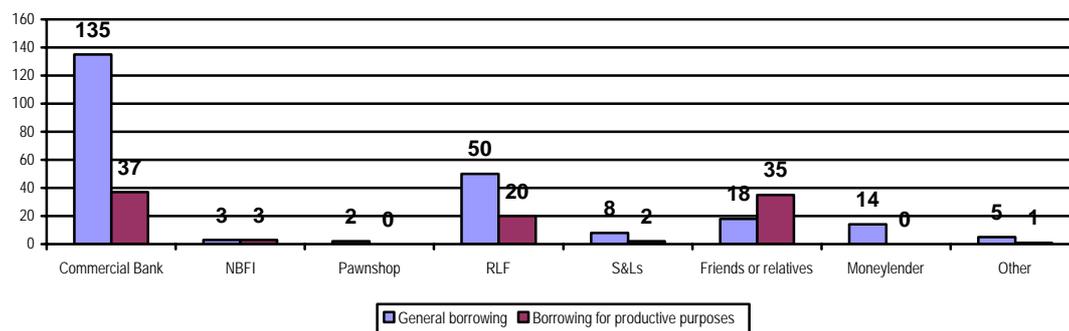
<sup>7</sup> UNDP Subsector Review of Micro-finance in Mongolia, 2002

population has an active loan from a bank or NBF<sup>8</sup>. The majority of this increase can be attributed to an increasing number of smaller borrowers in Ulaanbatar although an increased number of borrowers was also posted in aimag centres and sums, as the branch network expanded in these locations.

### 3.3.2 Credit sources

Over 62% of all respondents claimed to have borrowed money at some time in their lives, and of these, about two-thirds have borrowed money at one time or other from commercial banks or NBFIs. Put another way, about 35% of all respondents claimed to have borrowed from banks or other NBFIs at some time in their lives<sup>9</sup>. When asked about financing productive activities, however, only 20% claimed to use commercial banks or NBFIs. This may be a reflection of the relatively low levels of investment in business in rural areas – less than 24% of respondents claimed to make “business investments” (i.e. in livestock, tools, etc.) in the last year. It also reflects the high cost of borrowing from the banks for business purposes.

**Figure 1: Sources of finance in rural Mongolia**



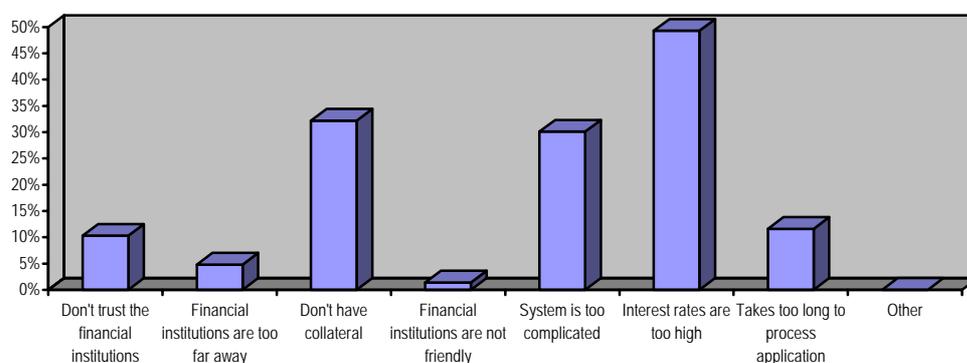
Of those who have ever borrowed, less than 10% claimed to have accessed credit from friends or relatives. When asked in a separate question about sourcing finance for productive activities in the last 3 years, over 60% of respondents indicated that they relied on their own resources/savings and only 19% claimed to call on the support of relatives. Similarly, less than 24% of respondents claim to have ever lent money to other people. This contrasts sharply with Sant Maral’s 2001 survey, which showed that friends and family were the most important sources of finance for 84% of respondents. The difference is not easy to explain: certainly for some, the assistance of friends and relatives is such an integral part of the survival system that it may not even be considered as an explicit “source” of credit in the way that banks are.

<sup>8</sup> Source: Bank of Mongolia

<sup>9</sup> Interestingly, this represents a five-fold increase since 2001 when, in St. Maral’s national study, only 7% listed banks and NBFIs as a source of borrowing.

Similarly, when asked what options respondents would consider first if they needed a loan, more than half said that they would first consider the commercial banks, with only 25% considering friends and family first. Interestingly, about 15% indicated that they would approach the RLF first. The importance attached to the RLF is also demonstrated in the responses to other questions in our survey. For example of those that have ever borrowed, over one-quarter has accessed loans from the RLF. Over 10% of all respondents who claimed to establish business activities in the last 3 years accessed finance from the RLF. Certainly, the RLF with its relatively low interest rates and weak sanctions against those who fail to repay, seems to have gained substantial popularity in the areas where it was available over the last few years.

Figure 2: Reasons for non-use of financial services



When asked about key factors when considering various alternative sources of finance, over two-thirds emphasised the importance of prompt disbursement of the loan. Over 38% considered low collateral requirements to be important, while 33% felt that the physical distance to the lender was an important consideration. Flexibility in repayments appears to be the least important factor in considering choice of credit provider.

Overall, the results of the survey tend to indicate a high level of awareness about financial services in rural areas (including donor initiatives). However, the fact that a relatively large number of people consider using the commercial banks while only a small number actually obtain loans shows that many households are still not sufficiently aware of the strict terms and conditions attaching to bank loans. It also demonstrates that there may be a relatively large unfulfilled demand for bank loans amongst the rural population.

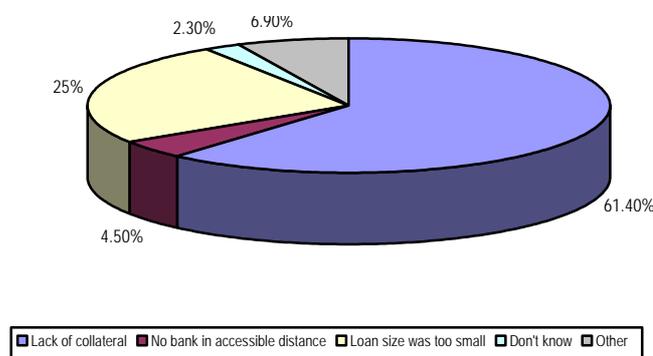
Of those respondents that did not consider the use of any financial institution for borrowings, 47% indicated that the chief reason was high interest rates. A further 25% cited the lack of collateral as the main reason for not considering commercial

banks or NBFIs for a loan. Interestingly, less than 4% indicated that their nearest bank branch was too far away.

### 3.3.3 Access to finance

Only 18% of respondents indicated that they had ever experienced difficulties in accessing finance for business activities or for consumption. Of those that had had difficulties, two-thirds indicated that lack of collateral was the main problem. A further 25% were refused because the size of the loan for which they were applying was too small.

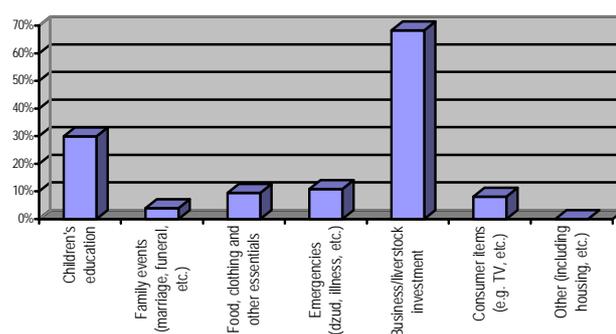
Figure 3: Difficulties in accessing finance



### 3.3.4 Purpose of loan and loan products

In our survey, 77% indicated that they intended to seek loans within the next 3 years. Of those that intended to borrow, 68% indicated that they intended to invest further in productive activities, while almost 30% indicated they wished to borrow for their children’s education. Interestingly, almost 11% expected to have to borrow for emergencies, such as dzud, illness, etc. The relatively high number intending to borrow is probably a reflection of the increasing consciousness of the increasing possibilities offered by rural financial institutions. While the proportion with a stated interest in borrowing for productive purposes seems high compared to other surveys, and indeed compared to recent borrowing history, it is important to note that at least part of the loans taken for “productive purposes” are likely to be used for various consumer items, family events, etc.

Figure 4: Stated loan uses in the next 3 years



Within the “productive loans” category, trading activities continue to dominate, principally because trading is one of the few activities that can generate sufficiently high returns to allow borrowers to repay interest charges of 4% per month. Trading, of course, also offers the opportunity for quick returns (compared for example to animal husbandry). Nevertheless, the number of loans for herding activities continues to grow as herders have proven their creditworthiness over time and as banks have devised systems for accepting livestock as security on loans.

Consumption loans have also been gradually increasing in importance. While surveys show that demand for consumption loans is high, especially amongst low and middle-income groups, banks have only recently begun to respond. Cash-smoothing loans, in particular, are strongly demanded amongst herders especially during winter and early spring.

There is relatively little demand for larger scale long-term investment lending in Mongolia, mainly due to the high interest rates and the relative riskiness of business in Mongolia. While many surveys show that borrowers claim a preference for long-term loans (particularly because of the transaction costs associated with each loan application), it is doubtful that many would be willing to bear the additional interest charges for that service. Certainly, the experience of XAC Bank for example, which has offered graduated increases in loan sizes and period, shows that the number of borrowers seeking the longer period loans is quite limited.

Various studies have shown a significant latent demand for mortgage lending (mostly in Ulaanbatar)<sup>10</sup>. However, due to the lack of maturity in the legal environment (Mongolian land ownership law is a particular obstacle to mortgage lending) and the fact that mortgage lending offers lower rates of return to the banks, the banks may lack the motivation to develop mortgage products. In

<sup>10</sup> UNDP (2002) op. cit.

response, the ADB has launched a major housing finance project, which is administered through the commercial banking sector.

Other studies have identified a variety of financial products with a strong potential demand, which remains as yet unproven. Examples include financial leasing which may be relevant for entrepreneurs in rural transportation, agro-processing and other small manufacturing and craft industries. Similarly, some innovative forms of venture capital aimed at promoting entrepreneurship would be likely to attract substantial demand in both urban and rural locations.

### ***3.3.5 Borrower quality***

In general terms, there appears to be a high level of creditworthiness amongst the respondent group. Of those questioned, less than 7% admitted that they had ever failed to repay a loan. Of those that had failed to make their repayments, more than 80% cited low income levels as the main explanatory factor. No-one admitted to a failure to repay without reason.

Despite the apparent creditworthiness of borrowers in rural areas, some financial institutions have emphasised the poor “quality of borrower” in rural areas. In particular, borrowers are often seen to have very poor management skills. The ADB, in its review of the ASDP Credit Component, cited the following examples:

- in cases where the loan is not needed for planned activities, the money is often held and used for interest payments during the first months instead of being returned to the bank
- poor attention to marketing of products – in many cases loan officers become advisers on the marketing of various local products
- alcoholism amongst sub-borrowers and general lack of attention to the business activity

In response to the poor management skills amongst borrowers, some financial institutions, such as XAC Bank and Credit Mongol, have organised special training programmes for borrowers. These programmes, obligatory before receipt of a loan, are designed especially to improve basic business and financial management skills amongst borrowers. These courses include cash flow management skills, basic accounting, marketing, etc. All financial institutions who carry out this activity are convinced that it adds to the quality of their portfolios.

### ***3.3.6 Group borrowing***

More than 56% of respondents indicated that they would be happy to borrow money in a group. This corresponds generally with previous surveys that show a relatively large agreement with the principle of group lending. However, practice

shows that few individuals willingly enter group lending schemes and few are willing to take responsibility for other individuals' loans – the strong support for group lending is interpreted as being respondents' view that the group loan idea would be an attractive proposition for “other people”. (Credit Mongol, 2003). Certainly, group lending has not been very successful to date in Mongolia although it can be argued that the failure of group lending in Mongolia is due to the fact that the groups were mostly formed specifically for the purpose of accessing credit, rather than for other more productive reasons.

### ***3.3.7 Savings***

According to the Bank of Mongolia, total savings at banks and NBFIs have increased from less than USD 60 million in 1999 to over USD 215 million in 2003. This corresponds closely with the expansion of the branch network in Ulaan Baatar and in the rural areas. About 86% of all savings are deposited in bank accounts in Ulaan Baatar with only modest savings in aimag centres (about 10% of the total) and sum branches (about 4%). Even in AgBank, with its dense branch network in the rural areas, sum level savings accounts for only 15% of the bank's total while savings in aimag branches account for about 30% of Xaan's total. This would appear to indicate a relatively low capacity to save (and/or a low propensity to save) in the rural areas. Over 80% of all savings are held in the higher yielding term deposit accounts. There is a relatively low usage of savings accounts for current spending.

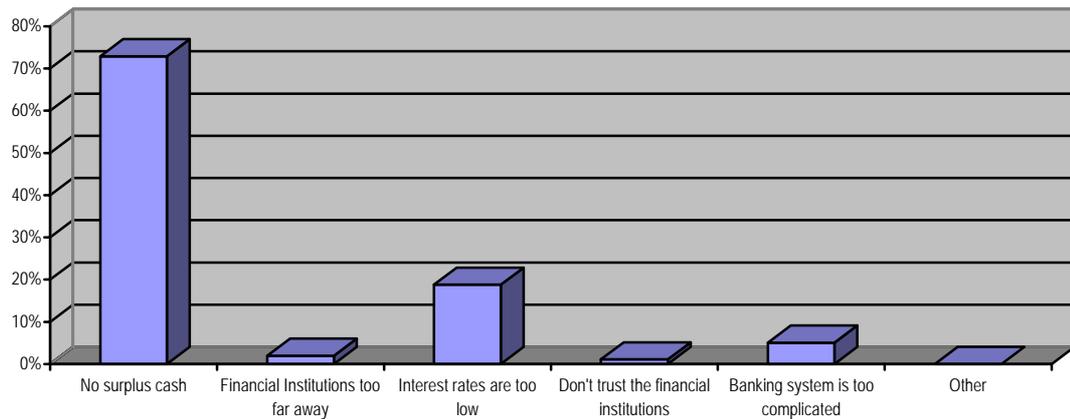
The vast majority of respondents in our survey did not hold savings in banks or NBFIs, broadly in line with Central bank figures showing most increase in savings in Ulaanbatar. Less than 22% of the respondents possessing some savings held them in financial institutions. For most (78%), any available cash was held at home. Previous studies indicate higher usage of the financial sector for savings amongst high income earners and very low usage in low income groups<sup>11</sup>. According to our survey of financial institutions in the rural areas, almost half of all savings accounts are held by herders, with small business owners (13%) and pensioners (11%) the next most important groups.

For most respondents in our survey (73%), the lack of savings was explained by the absence of surplus cash for savings. A further 19% cited low interest rates as a reason for not saving in a financial institution. Only 2% indicated that they did not hold accounts at banks or NBFIs for reasons of physical distance from the service.

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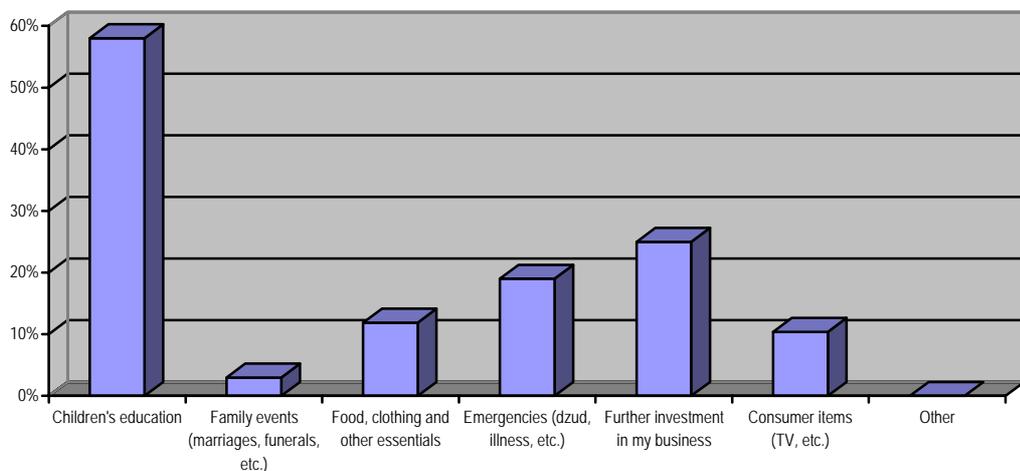
<sup>11</sup> UNDP (2002) op. cit.

Figure 5: Reasons for not saving in financial institutions



For the small minority who have managed to save, more than half claim to have saved less than 500,000 Tg with only 17% claiming to have saved more than 2 million Tg. The main motivation for saving appears to be the children’s education (58%), investment in the family business or livestock (25%) and emergencies such as dzud, illness, etc. (19%).

Figure 6: Motivations for saving

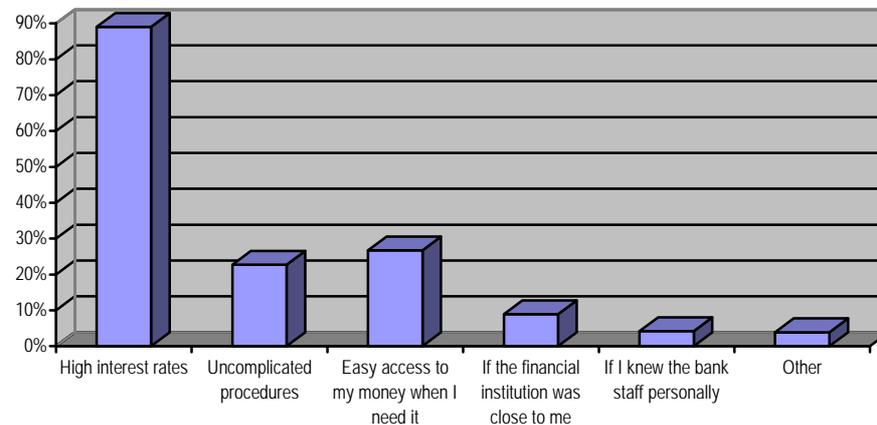


While most respondents claimed to have no cash savings, more than three-quarters indicated that they had accumulated non-cash assets. For the majority (68%) these non-cash assets took the form of livestock. Others had accumulated tools and accessories (19%) and agricultural supplies, such as wheat, wool, etc. (12%).

When asked about the factors that would encourage respondents to save in a financial institution, 89% cited high interest rates with 27% emphasising the

importance of easy access to the cash when necessary. The problem of low interest rates on deposits was also raised by 80% of respondents in the UNDP's 2002 study – indeed with some of the larger banks offering negative real interest rates on savings, this is hardly surprising.

Figure 7: Factors encouraging more savings



The literature indicates, however, that there may be a number of factors on the supply side that provides disincentives for banks to mobilise savings:

- the high return on government bonds
- the high level of liquidity in the system created especially by large inflows of donor and multilateral funds
- the lack of any concerted marketing campaign by either government or private sector to mobilise savings

## **4. Conclusions**

### **4.1 Financial markets in rural areas – looking to the future**

This paper set out to review recent developments in the socio-economic environment and in the financial services sector in rural Mongolia. Arising out of this review, we pose a number of key questions relevant, in particular, to the future orientation of donor and government policy: What is likely to be the financial landscape in 5-10 years time? Who will be served in the rural areas and who will be excluded? What intervention can be made by donors and government to ensure a more efficient financial services sector in rural areas while improving access to credit and higher capacity and propensity to save amongst a wider section of the rural community.

### **4.2 Demand, supply and the future shape of financial services in rural areas**

There is a substantial and ongoing demand for credit in rural areas. Many families have already accessed finance from banks and NBFIs during household emergencies or for business development purposes. Our surveys indicate a high proportion of respondents with an intention to borrow money in the next 3 years – most expect their income levels to increase in the medium term, and it would appear that the banking sector is seen as having an important contribution to make to that improvement.

Apart from expectations of improved economic activity, there are additional reasons for expecting continued growth in demand for financial services in the rural areas. Firstly, demographic trends point to a continuing growth in the rural population as agricultural activity continues to provide the most reliable safety net for households. This increasing population engaged in economic activity at sum level will bolster the demand for rural financial services. Secondly, greater numbers of rural dwellers are developing a credit history in banks and NBFIs, and as financial management skills correspondingly improve and economic development hastens, the size of average loans is likely to increase in the medium term. The “quality” of borrower is also likely to improve as the terms and conditions of the financial services sector become more clearly understood. It is, of course, difficult to quantify the magnitude of such increases in demand (demand for credit is a complex function of interest rates, business performance, economic expectations and entrepreneurial climate) but there is a strong likelihood that the rate of growth in demand for finance will exceed general Mongolian economic growth figures in the short- to medium term.

On the supply side, there is not much evidence of a chronic unavailability of credit in rural areas generally. The branch network is surprisingly dense in a country with the population density of Mongolia, thanks mainly to the network of AgBank branches. A relatively high proportion of respondents in our survey have borrowed money from commercial banks at some time in their life and banking data indicate quite large loan portfolios, even in remote rural locations. Various international donor projects have also injected substantial volumes of capital into rural areas. In this context, the proportion of respondents in our survey who claim to have experienced difficulties in accessing finance are encouragingly low.

It seems unlikely, despite the relatively low operational costs, that the branch network at sum level will expand significantly in rural areas over the next 5-10 years. Unless one of the larger banks enters the sum level market with an aggressive marketing effort and new, more attractive, loan products, it is hard to see the dominance of AgBank being threatened. The current pace of expansion of the branch network in Ulaanbatar and aimag centres is likely to continue for some time, with most of the major banks jostling for local market share in these locations.

As the market matures in the sum level, it is likely that we will see a natural evolution of the financial products on offer (i.e. new products coming on stream in response to market pressure (as distinct from donor pressure)). The dominance of agriculture in the rural economy is likely to drive this evolution with additional, more advanced, products for herders of various stock sizes, agro-processors, seasonal consumption loans, etc. The development of loan products based on the agricultural sector will require further innovation in relation to security, loan terms, repayment scheduling, etc.

From the point of view of the international donors and the Government, there is a need for serious consideration about the impact of further contributions of loan capital. Certainly in some locations, the per capita injections of finance by the international community have been extremely high. This has had a demonstrable positive impact on citizens' access to credit in rural areas. It has also accelerated the development of the banking infrastructure as PFIs reorganised and expanded in accordance with the conditions of donors' funds. However, as a result of these donor contributions, the key issues now appear to have less to do with the availability of loan finance and more to do with demand-side issues such as improving financial access for larger numbers, collateral issues, support to economic activity, etc.

Overall then, donor organisations have done a good job of making their case for properly administered credit lines, distributed on the basis of best banking practice. There is strong evidence to suggest that the interventions of the Government and the international donor community are generally working well

in terms of ensuring greater access to credit in rural locations. The following sections identify areas of additional need and propose some broad areas of intervention designed to further enhance the operation of the financial sector in rural Mongolia. The proposals outlined here are designed to stimulate debate, attempting to anticipate the “natural development” of the sector and to accelerate this natural development by thinking innovatively about the market failures that are likely to retard socio-economic development generally in the rural areas.

### **4.3 Access to finance and vulnerable groups**

Despite the successes of donor operations to date, and the high volumes of capital available for lending in rural areas, there are nevertheless some important groups who are still unable to access finance under current conditions. For most rural borrowers, interest rates are charged at up to 4% per month and all the normal commercial terms apply in relation to security, etc. For the most impoverished groups, without livestock or other cash or non-cash assets, the micro-finance market remains inaccessible. Although general access to finance has of course been expanded, there is an important minority still unreached by the financial sector. Since many government policies and international donor programmes aim to address poverty and “the poorest of the poor”, it is important to bear in mind that most credit programmes that are implemented by risk averse commercial banks and NBFIs may not, in fact, be accessible by the most vulnerable groups.

In this context, special programmes to improve access to finance for the poorest of the poor may be worthy of further consideration. It is clear that programmes (such as the RLF) implemented outside of the mainstream financial sector have not worked well generally. On the other hand, NBFIs and commercial banks have little interest in serving assetless clients. In this context, there is a need to consider new programmes that would provide the financial sector with incentives to lend to the most vulnerable groups.

Of course, such approaches are always fraught with difficulties. To begin with, the definition of “vulnerable groups” is always difficult and quite arbitrary and any special concessions for these groups tend to create anomalies in the market. The most successful approach is usually to support the development of specialised financial institutions for vulnerable groups and, in Mongolia, the basic legal and institutional structures exist to allow this approach to be taken. Institutions like Savings and Loans Co-operatives have a quite strong record of success in Mongolia although they are probably underused as vehicles to access the poorest of the poor. Apart from programmes to technically support the establishment of smaller credit co-operatives, particularly in rural areas, the value of establishing a special wholesale lending facility for small financial institutions serving vulnerable groups

or vulnerable economic areas should be researched. There are, of course, various examples of such facilities worldwide but the most successful tend to combine wholesale lending and technical support to the small borrowing institutions.

Any such interventions should be discussed in detail with the financial sector. Obviously, any such programme would have to be very carefully targeted and organised in a way that does not introduce anomalies in the existing market.

#### 4.4 Developing new loan products

As already discussed, a new range of loan products (e.g. herders loans) has been emerging in recent times in response to the demands of the market. The market is likely to continue to drive the evolution of the financial products on offer and, in general terms, there is probably not a great need for extensive government or donor intervention in this area. However, there is a need to accelerate the sophistication of loan products in specific areas<sup>12</sup> and the donor community should support the development of new and innovative products that the financial sector on its own may be unwilling to introduce. Obviously, there are limitless possibilities for loan products in terms of size, term, interest rate, collateral requirement, timing/seasonality, etc. The introduction of new loan products is always challenging and certainly some of the examples presented below have special complexities that may, indeed, prove difficult to overcome. Nevertheless, further consideration may be worthwhile in some of the following areas:

- (i) Leasing: Leasing is poorly developed in Mongolia, despite the fact that it would appear to solve many of the key problems in the financial markets. Leasing can hasten the introduction of new production technologies while solving the problem of a lack of collateral. Leasing arrangements tend to be longer term, offer the borrower lower interest rates, and sometimes allow a more flexible repayment schedule.
- (ii) Quickly accessible loans: Our research shows that quick and easy accessibility of finance is extremely important for many borrowers, especially in rural areas. Support to the development of such products can help to stimulate the financial markets even further. Some experiments with such loan products have already been carried out in Mongolia. Credit Mongol, for example, have offered the “Quickcash” product, operating on the pawnshop principle, where borrowers physically bring their collateral with them when applying for the loan. This has been one of Credit Mongol’s most popular (and most risky) new products.
- (iii) Interest rebates: Some loan applicants, like first-time borrowers, are considered more risky by the banking sector due to the lack of a credit

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<sup>12</sup> For example, economic progress is generally hampered because long term productive loans are unattractive to businessmen and investors. Similarly, some innovation in the types of loan product on offer can help to increase accessibility to finance even further, etc.

history or other similar reasons. Products that offer “cash back” or interest rebates may allow the banks to capture the additional risk in higher interest rates, without increasing the total cost of the loan significantly to the borrower. A similar scheme of rebates could be offered more generally to reduce the cost of borrowing for the best clients, without affecting the risk premium taken by the banks.

- (iv) Credit and economic activity: International donors may consider the need to link more closely their support to the financial services sector with their support to various general economic development activities (SME supports, etc.). It may be worthwhile to consider special loan products in the context of the broader economic development measures taken by government and donors. This would be done by creating special “packages” of measures that would, for example, link special loan products to other interventions such as business training, business incubator space, etc. This obviously requires closer co-ordination between donors and even within large donor projects (e.g. the overall impact of the various sub-components of the SLP could probably be enhanced by linking them more carefully to the micro-finance component).

## 4.5 Savings

As already indicated, much work has been done in trying to ensure a wider access to credit in rural areas and, to a large extent, these efforts have been quite successful. It would appear that much less progress has been made in encouraging savings. In particular, it is interesting that the number of loan accounts significantly exceeds the number of savings accounts. Our research shows that rural communities hold very low levels of cash savings and this lack of savings makes families vulnerable during times of hardship, dzud, etc. Dzuds are especially dangerous since the assets of many families are tied up in livestock.

This low propensity to save has, thus far, not attracted the intervention of the donor community. Indeed, donors worldwide have tended to avoid measures that support savings mobilisation because of the weighty responsibility of assuring the poor that their savings are secure. Even in stable environments, the weak asset management typical in many small-scale financial institutions severely compromises the security of deposits. When combined with external shocks, such as dzuds, the security of deposits is reduced further. CGAP concludes that “donor support of deposit mobilisation can only be justified by the even higher risk of poor people’s savings in the informal sector into which they are forced in the absence of formal or semi-formal alternatives”.

Nevertheless, there is a need to think about new ways to encourage savings amongst low income groups in rural areas. Obviously, most families in difficult

economic circumstances have limited spare cash to save but even modest savings over time can help to ameliorate the worst impacts of dzuds or other household crisis situations.

There are a number of possible approaches worth consideration. Firstly, it may be possible to develop a scheme with banks and NBFIs in which loans are directly linked to savings (for example a scheme in which a low-income borrower would be allowed to borrow twice the value of savings on account with a less strict collateral requirement). Such a scheme might be particularly appropriate for asset-poor families with low cash incomes or social benefits.

Alternatively, savings might be mobilised through special savings products, topped up by government, that would offer higher returns or more attractive conditions. These “top-up” schemes have been used in a number of countries to mobilise savings and/or to curb inflation and, although they are expensive, they can be effective in drawing in savings that would otherwise remain outside the banking system.

Other savings products might include government “prize bonds”, of a type still used in Ireland and elsewhere. These bonds, although not interest bearing, offer holders of the bond a free opportunity to win prizes in a lottery-type system over the lifetime of the bond. Other similar types of government bonds, open to the general public could be worthy of some further study.

On the other hand, before new and/or expensive savings or investment products are developed, measures should also be put in place to encourage banks and government to carry out their own marketing campaigns aimed at mobilising savings at all levels.

Again, all such savings or investment packages would have to be worked out in close consultation with the banking sector.

## **4.6 Competition in rural financial markets**

The development of competition amongst financial institutions in rural areas in recent years is one of the most interesting aspects of the market. Experience from the micro-finance component of the SLP has indicated that competition to AgBank has helped to bring down interest charges in some locations and has widened access to credit. On the other hand, there is a limit to the number of banks that can be supported by rural sums. Deliberate policies to promote competition in the banking sector should be devised (for example by encouraging banks to operate in particular locations such as was done in the micro-finance

component of the SLP), but these policies should be ensure that that banks are not forced to operate in environments where they are doomed to fail.

#### **4.7 Interest rates**

As we have already noted, the extremely high interest rates in Mongolia are acting as a brake on economic development, in particular by making loans for longer-term investments prohibitively expensive. The high interest charges also eat up the value added created by entrepreneurs and reduce surpluses for reinvestment.

The introduction of artificially low rates, subsidised by government or international donors, is one approach to this problem but previous attempts at such systems have tended to fail because of the anomalies they introduce to the market (so, for example, borrowers may have the incentive to borrow at the cheap rate and on-lend at market rates, rather than use the loan for the purpose intended). Careful planning can help to reduce these problems but the overall experience of subsidised credit has not been positive.

Instead, there needs to be further concerted efforts by government to reduce market interest rates to a level that is sufficiently attractive for longer term productive investment. Target levels should be those found in Mongolia's main economic partners, especially Russia and China.

#### **4.8 Human and technological capacities**

The general approach of most donors, which has been to provide substantial injections of loan capital, has paid dividends. Access to credit has much improved even in the rural areas, the branch network has expanded, competition has increased, and the sophistication of loan products gradually developed. In the medium- to long-term, however, a more valuable orientation may be towards human and technological progress in the sector and less on loan capital.

Certainly, the long-term development of the sector will depend on the availability of well trained staff in bank governance/management, regulation, credit and risk assessment, IT, etc. While recognising efforts to date (such as the establishment of the Bank Training Centre), efforts to bring these skills up to the highest international standards will have to be strengthened further in the medium term. In addition to strengthening training capacities in Ulaanbatar, advances in distance learning can help improve access to training for staff in rural financial institutions.

Similarly, attention to the latest technological developments in the banking sector should be considered, especially in providing financial services throughout the vast Mongolian countryside. Developments in electronic money, mobile banking,

etc. have the potential to reduce the space between financial institution and client and to make the interaction between the two safer and more efficient. While the limitations of basic infrastructures may not allow the application of certain technologies, further investment in the technological development of the sector can help Mongolia jump forward in at least some aspects of its financial services systems.

Finally, there is a proliferation of agencies currently implementing micro-finance activities in Mongolia. Although there is a regular donor working group on micro-finance currently chaired by ADRA, co-ordination between donors themselves and between the donor group and government could be improved further. Proposals have emerged to create a Co-ordinating Unit for Micro-Finance activities in Mongolia. The overall aim of such a Unit would be to ensure that the government can properly co-ordinate the activities of the donor community (for example to avoid donor saturation in particular regions) and, at the same time, to allow the donor community better access to, and influence on, government policy developments in the sector. This, or some similar form of improved co-ordination, would certainly improve the overall impact of individual donor activities and create further financial policy impulses within the Mongolian government.

# Annex 1: Survey Questionnaires

## Questionnaire for Borrowers

Questionnaire ID *	No. : H -Aimag* Soum ** – number) H- (Pre-coded)
Date of Interview	
Name of Interviewer	

Name of Respondent			
Address	Aimag:	Sum:	Bag:
Proximity to Centres	To Sum Centre:	km	To Aimag centre: km

### A. Respondent's Profile

#### 1. Age

- Less than 25
- 25-40
- 41-55
- More than 55

#### 2. Sex

- Male
- Female

#### 3. Education Status

- Never attended school
- Attended primary school
- Attended secondary school
- Attended third level/college

#### 4. Number of people in the household (including spouse, children, parents, relatives, etc. living together) \_

\_\_\_\_\_

## B. Economic Status

5. Main economic activity of respondent

- |                                 |                          |                                     |                          |
|---------------------------------|--------------------------|-------------------------------------|--------------------------|
| Salaried employment             | <input type="checkbox"/> | Small manufacturing enterprise      | <input type="checkbox"/> |
| Livestock production            | <input type="checkbox"/> | Service provision                   | <input type="checkbox"/> |
| Crop Production                 | <input type="checkbox"/> | No economic activity – seeking work | <input type="checkbox"/> |
| Trading                         | <input type="checkbox"/> | No economic activity – student      | <input type="checkbox"/> |
| Other activity (please specify) | <input type="checkbox"/> |                                     |                          |

6. Additional economic activities of the respondent (tick all relevant activities)

- |                      |                          |                                     |                          |
|----------------------|--------------------------|-------------------------------------|--------------------------|
| Salaried employment  | <input type="checkbox"/> | Small manufacturing enterprise      | <input type="checkbox"/> |
| Livestock production | <input type="checkbox"/> | Service provision                   | <input type="checkbox"/> |
| Crop Production      | <input type="checkbox"/> | No economic activity – seeking work | <input type="checkbox"/> |
| Trading              | <input type="checkbox"/> | No economic activity – student      | <input type="checkbox"/> |
| Agro-processing      | <input type="checkbox"/> | Other activity (please specify)     | <input type="checkbox"/> |

7. Are other family members engaged in the income generating activities of the respondent?

- Yes  No

8. How many of the other family members are engaged in other income generating activities (i.e. income generating activities not connected to the activities of the respondent)?

9. Which activities are the other family members engaged in? (tick all relevant activities)

- |                                 |                          |                                     |                          |
|---------------------------------|--------------------------|-------------------------------------|--------------------------|
| Salaried employment             | <input type="checkbox"/> | Small manufacturing enterprise      | <input type="checkbox"/> |
| Livestock production            | <input type="checkbox"/> | Services provision                  | <input type="checkbox"/> |
| Crop Production                 | <input type="checkbox"/> | No economic activity – seeking work | <input type="checkbox"/> |
| Trading                         | <input type="checkbox"/> | No economic activity – student      | <input type="checkbox"/> |
| Other activity (please specify) | <input type="checkbox"/> |                                     |                          |

## C. Income and Wealth

10. What proportion (percentage) of your income is generated by the following activities?

- |                      |                          |                                 |                          |
|----------------------|--------------------------|---------------------------------|--------------------------|
| Salaried employment  | <input type="checkbox"/> | Small manufacturing enterprise  | <input type="checkbox"/> |
| Livestock production | <input type="checkbox"/> | Services provision              | <input type="checkbox"/> |
| Crop Production      | <input type="checkbox"/> | Pension or other state transfer | <input type="checkbox"/> |
| Trading              | <input type="checkbox"/> | Remittance                      | <input type="checkbox"/> |
| Other                | <input type="checkbox"/> |                                 |                          |

11. Did you begin any of these activities within the last 3 years?

- |                                |                          |                         |                          |
|--------------------------------|--------------------------|-------------------------|--------------------------|
| Small manufacturing enterprise | <input type="checkbox"/> | Services provision      | <input type="checkbox"/> |
| Livestock production           | <input type="checkbox"/> | Trading                 | <input type="checkbox"/> |
| Crop Production                | <input type="checkbox"/> | Other economic activity | <input type="checkbox"/> |

12. Where did you source the finance to start these new activities?

- |                          |                          |                                     |                          |
|--------------------------|--------------------------|-------------------------------------|--------------------------|
| Own resources/savings    | <input type="checkbox"/> | Relatives helped                    | <input type="checkbox"/> |
| Commercial banks         | <input type="checkbox"/> | NBFI                                | <input type="checkbox"/> |
| Savings and Credit Union | <input type="checkbox"/> | No finance was required to start up | <input type="checkbox"/> |
| RLF                      | <input type="checkbox"/> | Other (specify) _____               |                          |

13. What are the main markets for any income-generating activities in which you engage (i.e. where do you sell your products and/or services)?

- |              |                          |                                |                          |
|--------------|--------------------------|--------------------------------|--------------------------|
| Ulaan Baatar | <input type="checkbox"/> | Aimag centre                   | <input type="checkbox"/> |
| Local sum    | <input type="checkbox"/> | Wholesalers/traders come to me | <input type="checkbox"/> |
| Other        | <input type="checkbox"/> |                                |                          |

14. Do you have a steady stream of income month-by-month?

- Yes  No

If no, why not?

- |   |                          |
|---|--------------------------|
| The income-generating activity in the household is seasonal   | <input type="checkbox"/> |
| Our income-generating activity has not been very successful   | <input type="checkbox"/> |
| We have heavy debts to pay which eats into our monthly income | <input type="checkbox"/> |
| Other   | <input type="checkbox"/> |

15. Do you find that your income is insufficient at certain times to meet the needs of you and your family?

- Yes  No

If yes, what are the most difficult times?

- |  |                          |
|--|--------------------------|
| The beginning of the school year when school fees, books, etc. have to be paid | <input type="checkbox"/> |
| Paying for particular family events (weddings, funerals, etc.)                 | <input type="checkbox"/> |
| When you need working capital for your livestock/business                      | <input type="checkbox"/> |
| When someone in the family gets sick   | <input type="checkbox"/> |
| I find I'm short of cash all year round  | <input type="checkbox"/> |
| Other  | <input type="checkbox"/> |

16. On average, how many times in the year would you be short of cash?

- I never have enough cash for my basic needs
- I am short of cash, on average, 1-3 times a year
- I always have sufficient cash to meet the basic needs of the family
- Other

17. Are you the owner of any private land?

- Yes  No

If yes, how much? \_\_\_\_\_

18. Are you the owner of livestock?

- Yes  No

If yes, how much?

19. Are you the owner of any of the following items?

- |                              |                          |                                      |                          |
|------------------------------|--------------------------|--------------------------------------|--------------------------|
| Your own ger/house           | <input type="checkbox"/> | TV                                   | <input type="checkbox"/> |
| Car, truck or van            | <input type="checkbox"/> | Refrigerator                         | <input type="checkbox"/> |
| Tractor                      | <input type="checkbox"/> | Jewellery                            | <input type="checkbox"/> |
| Other agricultural machinery | <input type="checkbox"/> | Other moveable asset (specify) _____ |                          |

20. What is your current level of income in your household per year?

- Less than 500,000 Tg per year
- 500,000 – 1 million Tg per year
- 1 million – 2 million Tg per year
- More than 2 million Tg per year

21. Do you expect your household income levels to increase, decrease, or stay the same in the next 3-5 years?

- Increase  Decrease  Stay the same

If you expect your income to increase, please indicate why this is likely to happen?

- I intend to invest in new or expanded business activities which should increase my income
- Some of my children will begin helping me expand our activities in the next few years
- I expect that I or my family members will be able to find a job in the next 3 years
- The markets for my business are expanding
- Some of the members of the household will soon be entitled to pension payments
- Some of the members of the household have gone to work in UB and we expect them to send more money home
- Other reason (please specify) \_\_\_\_\_

If you expect your income to decline, please indicate why this is likely to happen?

- Business is becoming increasingly difficult – the prices of my products are falling
- Some of the members of my household are no longer able to work due to age or ill health
- More and more people are losing their jobs – our household is bound to suffer too
- Fewer and fewer people want to buy my products/services
- Our son/daughter has left home so we have less help to carry out our business activities
- Other reason (please specify) \_\_\_\_\_

## D. Expenditure and Investment

22. Please estimate how much you spent last year on:

- |                  |       |   |
|------------------|-------|---|
| Food             | _____ | Education                                     |
| Clothes          | _____ | Family event (weddings, etc.)                 |
| Transport        | _____ | Business investments (livestock, tools, etc.) |
| Health/medicines | _____ | Others  |

23. Please estimate how much you have invested in the following items in the last 3 years:

- |                |  |
|----------------|--|
| Livestock      | Farm buildings (barns, etc.) and machinery |
| Car/truck/bus  | Tools and machinery for small business     |
| Motorbike      | Land                                       |
| Well/well pump | Others                                     |

24. Have you suffered any serious losses over the last 3 years?

- Yes  No

If yes, are these losses due to:

- |                       |                          |  |                          |
|-----------------------|--------------------------|--|--------------------------|
| Dzud/natural disaster | <input type="checkbox"/> | Failure of the business                            | <input type="checkbox"/> |
| Theft                 | <input type="checkbox"/> | Bank took my collateral on loan that I hadn't paid | <input type="checkbox"/> |
| Disease               | <input type="checkbox"/> | Other reason (please specify) _____                |                          |

25. How did you survive these losses?

- |                          |                          |  |                          |
|--------------------------|--------------------------|--|--------------------------|
| Took out a loan          | <input type="checkbox"/> | Sold livestock and other assets              | <input type="checkbox"/> |
| Managed with savings     | <input type="checkbox"/> | Cut down household expenditure               | <input type="checkbox"/> |
| Helped by other families | <input type="checkbox"/> | I had insurance                              | <input type="checkbox"/> |
| Other (specify) _____    |                          | Got assistance from government, donors, etc. | <input type="checkbox"/> |

26. Have you any plans to engage in new income-generating activities or invest further in existing activities in the next 3 years?

- Yes  No  Don't know

27. Have you ever lent to other people?

- Yes  No

## E. Savings

28. Do you currently hold cash savings?

- Yes  No

29. Where do you keep your savings?

- |                         |                          |                                 |                          |
|-------------------------|--------------------------|---------------------------------|--------------------------|
| At the commercial bank  | <input type="checkbox"/> | At the Savings and Credit Union | <input type="checkbox"/> |
| I keep the cash at home | <input type="checkbox"/> | Other (specify) _____           |                          |

Why do you not save at a financial institution?

- |   |                          |  |                          |
|---|--------------------------|--|--------------------------|
| No surplus cash for saving              | <input type="checkbox"/> | Don't trust the financial institutions | <input type="checkbox"/> |
| Financial institutions are too far away | <input type="checkbox"/> | The banking system is too complicated  | <input type="checkbox"/> |
| Interest rates are too low              | <input type="checkbox"/> | Other (specify) _____                  |                          |

30. How much cash have you saved?

- Less than 500,000 Tg
- 500,000 – 1 million Tg
- 1 million – 2 million Tg
- More than 2 million Tg

31. If savings are in financial institution, what interest rate are you earning on savings?

32. What are the main factors that would encourage you to save in a financial institution?

- |                          |                          |  |                          |
|--------------------------|--------------------------|--|--------------------------|
| High rates of interest   | <input type="checkbox"/> | Easy access to my money when I need it                 | <input type="checkbox"/> |
| Uncomplicated procedures | <input type="checkbox"/> | If the financial institution was close to me           | <input type="checkbox"/> |
| Other specify _____      |                          | If I knew and trusted the staff of the bank personally | <input type="checkbox"/> |

33. Do you currently hold non-cash savings?

- Yes  No

If yes, in what non-cash form do you like to save ?

- |                       |                          |   |                          |
|-----------------------|--------------------------|---|--------------------------|
| Livestock             | <input type="checkbox"/> | Agricultural supplies (wheat, wool, etc.) | <input type="checkbox"/> |
| Tools and accessories | <input type="checkbox"/> | Others (specify) _____                    |                          |

34. Why are you saving?

- |   |                          |   |                          |
|---|--------------------------|---|--------------------------|
| Children's education                        | <input type="checkbox"/> | Emergencies (dzud, illness, etc.)         | <input type="checkbox"/> |
| For family events (marriage, funeral, etc.) | <input type="checkbox"/> | For further investment in my business     | <input type="checkbox"/> |
| For food and clothing and other essentials  | <input type="checkbox"/> | For consumer items (TV, motorcycle, etc.) | <input type="checkbox"/> |
| Other (specify) _____                       |                          |   |                          |

## F. Borrowings

35. Have you ever borrowed money for any purpose?

- Yes  No

If yes, what was the source of the credit?

- |                 |                          |                          |                          |
|-----------------|--------------------------|--------------------------|--------------------------|
| Commercial bank | <input type="checkbox"/> | Savings and Credit Union | <input type="checkbox"/> |
| NBFI            | <input type="checkbox"/> | Friends or relatives     | <input type="checkbox"/> |
| Pawnshop        | <input type="checkbox"/> | Moneylender              | <input type="checkbox"/> |
| RLF             | <input type="checkbox"/> | Other (specify) _____    |                          |

37. If you needed a loan for business purposes or consumption, what options to you consider first?

- |                 |                          |                          |                          |
|-----------------|--------------------------|--------------------------|--------------------------|
| Commercial bank | <input type="checkbox"/> | Savings and Credit Union | <input type="checkbox"/> |
| NBFI            | <input type="checkbox"/> | Friends or relatives     | <input type="checkbox"/> |
| Pawnshop        | <input type="checkbox"/> | Moneylender              | <input type="checkbox"/> |
| RLF             | <input type="checkbox"/> | Other (specify) _____    |                          |

If bank, NBFI, or S&C association is not first in the list, ask why?

- |   |                          |  |                          |
|---|--------------------------|--|--------------------------|
| Don't trust the financial institutions  | <input type="checkbox"/> | The banking system is too complicated    | <input type="checkbox"/> |
| Financial institutions are too far away | <input type="checkbox"/> | Interest rates are too high              | <input type="checkbox"/> |
| Don't have any collateral               | <input type="checkbox"/> | Takes too long to process my application | <input type="checkbox"/> |
| Financial Institutions are not friendly | <input type="checkbox"/> | Other (specify) _____                    |                          |

38. Have you borrowed money in the last 3 years?

- Yes  No

If yes, please complete the following table:

Lender	Amount	Repay. term* (months)	Purpose	Interest Rate/m	Repaid amount	Other Conditions (eg. repayment schedule)
1.Bank (Specify )						
2.SCU						
3.NBFI(Specify )						
4.Pawnshop						
5.Friends/Relatives						
6.Money lender						
7. RLF						
8.Traders /processing companies						
9.Others (Specify )						

39. What are the main factors that you would consider when choosing a source of finance?

- |                                  |                          |                              |                          |
|----------------------------------|--------------------------|------------------------------|--------------------------|
| The size of the loan that I need | <input type="checkbox"/> | Physical distance            | <input type="checkbox"/> |
| The period in which I can repay  | <input type="checkbox"/> | Prompt disbursement          | <input type="checkbox"/> |
| Repayment flexibility            | <input type="checkbox"/> | Easy procedures              | <input type="checkbox"/> |
| Interest Rate                    | <input type="checkbox"/> | Less collateral requirements | <input type="checkbox"/> |
| Other (specify) _____            |                          |                              |                          |

40. Have you ever experienced difficulty in accessing money for business activities or for consumption?

Yes  No

If yes, why?

- |                                |                          |  |                          |
|--------------------------------|--------------------------|--|--------------------------|
| Lack of collateral             | <input type="checkbox"/> | The size of the loan that I needed was too small | <input type="checkbox"/> |
| No bank in accessible distance | <input type="checkbox"/> | Don't know                                       | <input type="checkbox"/> |
| Others (specify) _____         |                          |  |                          |

41. Have you ever borrowed from the MDF?

Yes  No  Don't know

42. Have you ever borrowed from the RLF?

Yes  No  Don't know

43. Do you think the MDF/RLF fund has had a net positive or negative impact on you and your family?

Positive  Negative

If positive, what were the main reasons for this positive impact?

- |  |                          |
|--|--------------------------|
| The loan allowed me to buy new livestock and/or build up my business                   | <input type="checkbox"/> |
| The loan protected me from a very difficult period when business was bad               | <input type="checkbox"/> |
| The loan has given my children the possibility of a better education                   | <input type="checkbox"/> |
| The loan has allowed me to buy a TV, refrigerator, motorbike, or other household items | <input type="checkbox"/> |
| Other (specify) _____  |                          |

If negative, what were the main reasons for this negative impact?

- |  |                          |
|--|--------------------------|
| The repayments are so high that now I don't have the money for my children's education   | <input type="checkbox"/> |
| The repayments are so high that I can't invest into my main income generating activities | <input type="checkbox"/> |

I invested in a business that failed and now I have nothing except a loan to repay

In trying to meet the repayments, I don't have enough for the basic household needs (food, clothes, etc.)

Other (specify) \_\_\_\_\_

44. Have you ever failed to repay a loan?

Yes  No

If yes, what were the main reasons for this?

Wasn't earning enough income to repay the loan

Interest payments were too high

I borrowed more than I needed without thinking about repayments

The loan term was too short

I had other priorities at the time (family expenses, livestock, education, etc.)

I thought the loan was from the government and didn't need to be repaid

I just decided not to repay because nobody else was paying

Others (specify) \_\_\_\_\_

45. Do you intend to take additional loans in the next 3 years?

Yes  No

If yes, for what purpose?

Children's education <input type="checkbox"/>	Emergencies (dzud, illness, etc.) <input type="checkbox"/>
For family events (marriage, funeral, etc.) <input type="checkbox"/>	For further investment in my business (or livestock) <input type="checkbox"/>
For food, clothing and other essentials <input type="checkbox"/>	For consumer items (TV, motorcycle, etc.) <input type="checkbox"/>
Other (specify) _____	

46. Would you be happy to borrow money in a group?

Yes  No

# FINANCIAL INSTITUTION SURVEY QUESTIONNAIRE

## A. General Information

<b>Name of the institution:</b>	<b>Contact person:</b>
<b>Address:</b>	<b>Telephone:</b> <b>Fax:</b> <b>E-mail:</b>

1. When was the institution established/registered?

- Less than 1 year ago
- 1-3 years ago
- 3-5 years ago
- 5-10 years ago
- More than 10 years ago

2. Type of financial institution

- Commercial bank
- Non-bank financial institution
- Savings and Loans Co-operatives
- Other

## B. Organisational Structure

3. How many branches in the organisation?

- Just the Head Office
- 2-4 branches
- 5-10 branches
- More than 10 branches

4. Where are the branches located (please provide a list of branches and their locations)?

---

---

---

---

5. Total number of employees in the organisation

6. Total number of credit officers in the organisation

### C. Services Provided

7. What services does your institution currently provide?

Credits		Cash transactions	<input type="checkbox"/>
Investment	<input type="checkbox"/>	Transfers of payments	<input type="checkbox"/>
Working capital	<input type="checkbox"/>	Insurance	<input type="checkbox"/>
Savings	<input type="checkbox"/>	Leasing	<input type="checkbox"/>
Deposits		Other (specify) _____	
Time deposits	<input type="checkbox"/>	Other (specify) _____	
Demand deposits	<input type="checkbox"/>	Other (specify) _____	

8. Do you plan to expand your range of services in the next 5 years?

Credits		Cash transactions	<input type="checkbox"/>
Investment	<input type="checkbox"/>	Transfers of payments	<input type="checkbox"/>
Working capital	<input type="checkbox"/>	Insurance	<input type="checkbox"/>
Savings	<input type="checkbox"/>	Leasing	<input type="checkbox"/>
Deposits		Other (specify) _____	
Time deposits	<input type="checkbox"/>	Other (specify) _____	
Demand deposits	<input type="checkbox"/>	Other (specify) _____	

9. Do you plan to increase the number of branches of your institution in the next 5 years?

Yes

No

If yes, where will your expansion be focused (please indicate the number of additional branches in the boxes)?

In Ulaan Bataar

In the aimag centres

At the sum level

### D. Clients

10. How many savings accounts are held in your institution?

11. Please estimate the percentage of your total savings accounts held by the following types of people?

Unemployed	_____
Student	_____
Salaried employee	_____
Pensioner	_____
Herder	_____
Micro-entrepreneur	_____
Small business owner	_____
Other	_____

12. In average, what proportion of your clients' annual income might be available for saving (i.e. after all necessary household expenditures on food, clothes, shelter, education, etc.)

- Less than 10%
- 10-25%
- 25-50%
- More than 50%

13. How many loan accounts are held in your institution?

14. Please estimate the percentage of your total loan accounts held by the following types of people?

- Unemployed \_\_\_\_\_
- Student \_\_\_\_\_
- Salaried employee \_\_\_\_\_
- Pensioner \_\_\_\_\_
- Herder \_\_\_\_\_
- Micro-entrepreneur \_\_\_\_\_
- Small business owner \_\_\_\_\_
- Other \_\_\_\_\_

15. Do you provide group loans?

- Yes
- No

16. Please estimate the percentage of your individual borrowers who fall into the following annual income level categories

- Less than 250,000 Tg per year \_\_\_\_\_
- 250,000 – 500,000 Tg per year \_\_\_\_\_
- 500,000- 2 million Tg per year \_\_\_\_\_
- 2 million – 5 million Tg per year \_\_\_\_\_
- More than 5 million Tg per year \_\_\_\_\_

17. What proportion of total clients are women?

- Less than 25%
- 25-49%
- 50-75%
- More than 75%

18. What proportion of total borrowers are women?

- Less than 25%
- 25-49%
- 50-75%
- More than 75%

19. Please estimate the proportion of your borrowers applying for loans for the following purposes:

- Agriculture (animal breeding, crop production, etc.) \_\_\_\_\_
- Manufacturing (food processing, handicrafts, etc.) \_\_\_\_\_
- Trading Activities \_\_\_\_\_

Paid Services (hairdressing, café/bars, transport, etc.) \_\_\_\_\_  
 Business Start-ups \_\_\_\_\_  
 Residential Housing \_\_\_\_\_  
 Consumer loans (school fees, funeral expenses, etc.) \_\_\_\_\_

**E. Loan Portfolio**

20. What is your current active outstanding loan portfolio (net of provisions)?

Less than 30 million Tg   
 30 million – 100 million Tg   
 100 million – 500 million Tg   
 More than 500 million Tg

21. What proportion of your total loan portfolio (in value terms) is made up of loans of less than 500,000 Tg?

Less than 25%   
 25-50%   
 50-75%   
 More than 75%

22. Of the total number of loan accounts held in your institution (see Q.12), what proportion is held by:

Individuals \_\_\_\_\_  
 Groups \_\_\_\_\_  
 First-time borrowers \_\_\_\_\_  
 Repeat borrowers \_\_\_\_\_  
 Business borrowers \_\_\_\_\_  
 Consumer borrowers \_\_\_\_\_

23. Of those loans held by business borrowers, how much, in percentage terms, is used for:

Investment \_\_\_\_\_  
 Working Capital \_\_\_\_\_

24. Please estimate the proportion of your total loan portfolio that is used for the following activities:

Agriculture (animal breeding, crop production, etc.) \_\_\_\_\_  
 Manufacturing (food processing, handicrafts, etc.) \_\_\_\_\_  
 Trading Activities \_\_\_\_\_  
 Paid Services (hairdressing, café/bars, transport, etc.) \_\_\_\_\_  
 Business Start-ups \_\_\_\_\_  
 Residential Housing \_\_\_\_\_  
 Consumer loans (school fees, funeral expenses, etc.) \_\_\_\_\_

25. Loan size (for the whole portfolio):

Minimum \_\_\_\_\_  
 Maximum \_\_\_\_\_  
 Average \_\_\_\_\_

26. Term (for the whole portfolio):

Minimum \_\_\_\_\_  
Maximum \_\_\_\_\_  
Average \_\_\_\_\_

27. Interest rate (for the whole portfolio):

Minimum \_\_\_\_\_  
Maximum \_\_\_\_\_  
Average \_\_\_\_\_

**F. Quality of Loan Portfolio**

28a. Percentage of rescheduled and/or restructured loans in the total loan portfolio?

Less than 2%   
2% - 5%   
More than 5% and less than 10%   
10% or more

28b. Percentage of rescheduled and/or restructured loans the portfolio of small loans (less than 750,000Tg)?

Less than 2%   
2% - 5%   
More than 5% and less than 10%   
10% or more

29a. Portfolio at risk (loans overdue for more than 30 days), as a % of total loan portfolio?

Less than 2%   
2% - 5%   
More than 5% and less than 10%   
10% or more

29b. Portfolio of small loans at risk (loans overdue for more than 30 days), as a percentage of the total portfolio of small loans (less than 750,000 Tg)?

Less than 2%   
2% - 5%   
More than 5% and less than 10%   
10% or more

30. What types of collateral/security do you require on loans?

For some loans, we don't require any collateral or guarantees   
We only accept fixed assets such as apartments, etc.   
We accept all assets including "movable assets" (TVs motorcycles, etc.)   
We accept letters of guarantee from third parties   
We operate a group loan system which, in itself is sufficient security and so   
we don't require any other form of collateral   
We accept other forms of security (please specify) \_\_\_\_\_

## G. Personnel

31. What are your plans for staffing levels in your institution over the next 5 years?

- Expect number of staff to increase   
Expect number of staff to decline   
Expect number of staff to stay the same

32. If you expect an increase or decrease in staff numbers, of what order would you expect this increase/decrease to be?

- Less than 10%   
10%-25%   
25%-50%   
More than 50%

33. Are you happy with the skills levels of your management and staff at the moment?

- Yes   
No

If no, please specify which areas are weak \_\_\_\_\_

34. Are you happy with the quality of training available in banking and finance in Mongolia at the moment?

- Yes   
No

If no, please specify \_\_\_\_\_

35. Does your institution operate a scheme enabling interested management and staff members to take part in training courses to update their skills?

- Yes   
No

If no, why not?

- I don't believe our management or staff needs additional training   
The quality of training available is not sufficiently high   
The available training is too expensive   
The management and staff have not expressed any interest in further training   
Other reason (Please specify) \_\_\_\_\_

## H. Financial Information

36. What proportion of your total funds have you received as:

Grants _____%	Capital _____%
Interest-free loans _____%	Other (specify) _____%
Interest-payable loans _____%	Other (specify) _____%

37. What is the average interest rate you pay on all funds received?

38. What are your administrative expenditures as a percentage of your total loan portfolio?

39. What are your administrative expenditures and provisions as a percentage of your total loan portfolio?

40. Is your institution currently involved in finance programmes of the international development agencies?

Yes   
 No

If yes, which agency?

World Bank <input type="checkbox"/>	EuropeAid <input type="checkbox"/>
Asian Development Bank <input type="checkbox"/>	USAID <input type="checkbox"/>
IFAD <input type="checkbox"/>	UNDP <input type="checkbox"/>
KfW <input type="checkbox"/>	World Vision <input type="checkbox"/>
GTZ <input type="checkbox"/>	Other (please specify) _____

41. Please provide financial statements (balance sheet and income statement) for end-2001 and end-2002 (audited statements, if available) and as of September 30, 2003

## I. The Financial Sector in Mongolia

42. Which of the following statements do you think best reflects the current situation in the market for finance in Mongolia?

There is a substantial unfulfilled demand for credit in Ulaan Baatar	<input type="checkbox"/>
There is a substantial unfulfilled demand for credit in the aimag centres	<input type="checkbox"/>
There is a substantial unfulfilled demand for credit in the sums	<input type="checkbox"/>
The high interest rates have depressed demand for credit in Mongolia	<input type="checkbox"/>
There is too much finance available in Mongolia – financial institutions are unable to find good borrowers for the funds they've got	<input type="checkbox"/>
The market is currently in equilibrium – there is neither excess demand nor excess supply	<input type="checkbox"/>

43. Please mark, in order of importance, the key issues that may slow down or prevent the further development of your organisation in the next 3-5 years (please mark 1,2,3)?

- The skills of our staff are not adequate at present
- Our MIS (including financial management systems) needs to be upgraded
- We are not likely to have sufficient funds for any further expansion
- The level of competition has reduced profit margins so there is little opportunity for expansion of the business
- Borrowers are not yet accustomed to the culture of banking so expansion does not make sense now
- The weak economic climate is reducing the demand for finance
- The Central Bank's supervisory regime is excessive
- Our marketing efforts need to be improved
- The legal environment in which we operate is preventing our further development (specify)
- Other (please specify) \_\_\_\_\_

44. Which of the following statements best describes the issue of credit provision at sum level?

- The cost of doing business is simply too high at sum level
- There is a large demand at sum level that our institution would like to exploit (further)
- Ag Bank has captured the market at sum level and there is no room for further competition there
- The demand for financial services in the sums is too weak to allow us to make a profit there

## Annex 2: DETAILS OF COMMERCIAL BANKS WITH RURAL BRANCHES

Thousand US \$

		Mongol Post Bank 1		Zoos Bank 2		Savings Bank 3		Anod Bank 4		Capital Bank 5		Inter Bank 6	
		1999 <sup>13</sup>	2003	1999	2003	1999	2003	1999	2003	1999	2003	1999	2003
Total assets		5,896.3	42,378.4	1.2	32,962.1	34,425.9	46,021.5	0	78,699.7	2,451.3	9,338.5	0	15,800.1
Average operating costs for a branch	in UB	145.6	446.0	0	156.5	0.7	0.9	0	5.0	0.2	3.8	0	1.8
	in the aimag centres	4	21.5	0	60.9	1.5	3.2	0	4.0	0.02	3.2	0	1.5
	in the sum	N/A	3.7	0	0	0	0	0	2.0	0	0	0	0
Total loan portfolio	in UB	3,606.4	21,314.0	0.8	16,918.9	205.1	9,414.1	0	524.1	1,216.2	4,811.1	0	8,686.9
	at aimag level	N/A	4,897.7	0	4,954.2	138.2	1,974.3	0	535.2	0.02	498.5	0	102.4
	at soum level	N/A	628.1	0	0	0	0	0	95.2	0	16.7	0	0
Total number of borrowers	in UB	75	561	56	995	155	55555	0	163	121	801	0	239
	at aimag level	0	5,664	0	2462	173	15815	0	214	12	257	0	123
	at soum level	0	2,782	0		0	0	0	71	0	23	0	0
From the total loan portfolio, percentage that are	business loans	82.0	98.7	85	96.4	0	72.1	0	88	100	83.8	0	75
	consumption loans	18	1.3	15	3.6	100	27.9	0	12	0	16.2	0	25
Maximum interest rate on loan, annually		72	42	72	50.4 43.2(\$)*	30	37.2	0	48	72	48	0	42
Minimum interest rate on loan, annually		30	19.2	43.2	20.4 10.8(\$)	30	22.32	0	36	36	24	0	12
Maximum term of loan, month		12	24	12	120	12	12	0	12	6	24	0	24
Minimum term of loan, month		1	1	0	0	3	1	0	0	1	1	0	1

		Mongol Post Bank 1		Zoos Bank 2		Savings Bank 3		Anod Bank 4		Capital Bank 5		Inter Bank 6	
		1999 <sup>14</sup>	2003	1999	2003	1999	2003	1999	2003	1999	2003	1999	2003
Total number of loan officers	in UB	2	9	2	14	1	5	0	3	2	11	0	4
	at aimag level	0	24	0	13	0	7	0	2	1	2	0	2
	at soum level	0	0	0	0	0	0	0	1	0	1	0	0
Total deposits taken	in UB	21.0	12,843.7	0.0	16,872.0	25535.8	27176.3	0	45,494.4	543.5	4,223.6	0	2,577.5
	at aimag level	N/A	10.7			3749.0	2944.6	0	789.9	0.03	59.1	0	25.1
	at soum level	N/A	446.9			0	0	0	103.0	0	14.8	0	0
Total savings taken	in UB	544.2	2,738.8	0.0	1,039.7	N/A	N/A	0	8,552.5	175.9	400.2	0	1,856.0
	at aimag level	61.3	4,293.4			N/A	N/A	0	141.8	0.003	7.8	0	2.1
	at soum level	N/A	283.0			0	0	0	42.8	0	1.9	0	0
Maximum interest rate on deposit		30	19.2 7,2(\$)	30 12(\$)	21.6 10.8(\$)	19.2	12	0	24	30	22.2	0	6.12
Minimum interest rate on deposit		27.6	14.4	24 6(\$)	14.4 4.8(\$)	3.6 (\$)	4.2 (\$)	0	16.8	18	14.4	0	4.92
Maximum interest rate on savings		18	7.2 4.8(\$)	12	6	6	6	0	9.96	12	7.2	0	3.6
Minimum interest rate on savings		18	7.2 4.8(\$)	3.6(\$)	3.6(\$)	1.2 (\$)	2.4 (\$)	0	9.96	3.6	3.6	0	3.6
Number of branches	in UB	5	8	1	5	27	32	0	9	1	6	0	2
	at aimag level	21	21	0	7	7	7	0	5	1	2	0	4
	at soum level	27	49	0	0	0	0	0	1	0	1	0	0

<sup>1</sup> In 1999, some indexes are not available because Mongol Post Bank was supervised by Post and Communication Company

\* \$ refers to interest on foreign exchange deposit/loan.

		Trade & Development Bank 7		Ulaanbaatar City Bank 8		XAC BAnk 9		Credit Bank 10		XAAH Bank 11	
		1999	2003	1999	2003	1999	2003	1999	2003	2001	2003
Total assets (in USD)		87,205.3	125,000.0	4,689.2	13,206.3	465.4	13,766.6	1,013.8	1,807.0	24,584.9	69,202.1
Average operating costs (in USD) for a branch	in UB	N/A	N/A	0	29.8	0.8	3.7	42.8	481.1	67.6	320.4
	in the aimag centres	N/A	N/A	0	11.2	0.7	2.5	0	28.8	14.5	33.4
	in the sum	N/A	N/A	0	0	0.6	1.5	0	0	0.4	16.4
Total loan portfolio (in USD)	in UB	14,303.4	51,724.1	942.2	6,489.1	116.4	2,576.8	2,867.6	3,462.3	401.5	9,923.3
	at aimag level			0	91.1	110.1	6,220.8	0	256.1	3,932.5	13,392.1
	at soum level	0	0	0	0	14.6	336.5	0	0	4,703.9	20,025.0
Total number of borrowers	in UB	N/A	N/A	175	4273	743	3,589	253	467	265	4,299
	at aimag level	N/A	N/A	0	107	657	12,968	0	292	13,003	27,809
	at soum level	N/A	N/A	0	0	115	932	0	0	19,350	88,757
From the total loan portfolio, percentage that are	business loans	100	95	100	92.8	100	74	94	90	71	59
	consumption loans	0	5	0	7.2	0	26	6	10	29	41
Maximum interest rate on loan, annually		32.4	42	48	48	72	48	84	48 36(\$)	60	48
Minimum interest rate on loan, annually		22.8	12	30	19.2	60	7.5	60	30 24(\$)	30	21
Maximum term of loan, month		12	96	6	12	12	24	12	14	36	60
Minimum term of loan, month		1	1-3	3	4	1	1	3	6	1	1

		Trade & Development Bank 7		Ulaanbaatar City Bank 8		XAC BAnk 9		Credit Bank 10		XAAH Bank 11	
		1999	2003	1999	2003	1999	2003	1999	2003	2001	2003
Total number of loan officers	in UB	~10	~10	3	25	10	79	2	9	10	38
	at aimag level	~5	~7	0	2	9	34	0	3	40	78
	at soum level	0	0	0	0	1	3	0	0	8	20
Total deposits taken (in USD)	in UB	8,693.0	12,375.0	0	2,168.7	0	4,056.5	338.1	1,373.6	5,914.2	25,855.1
	at aimag level			0	65.6	0	1,766.2	0	38.7	1,568.4	8,940.8
	at soum level	0	0	0	0	0	0	0	0	624.3	5,996.0
<b>Total savings taken (in USD)</b>	in UB	7,195.5	10,312.5	0	544.3	0	931.2	59.6	834.3	792.3	4,759.2
	at aimag level			0	32.0	0	294.4	0	27.7	603.3	1,006.4
	at soum level	0	0	0	0	0	0	0	0	839.9	949.1
Maximum interest rate on deposit		21.6	14.4	0	19.2	0	18	24	16.8 8.4(\$)	18	18
Minimum interest rate on deposit		3.6	5.4	0	14.4	0	4.2(\$)	8.4	12 6(\$)	18	10.8
<b>Maximum interest rate on savings</b>		9.6	9.6	0	6	0	8.4	12	8.4	9.6	9.6
<b>Minimum interest rate on savings</b>		1.8	1.8	0	6	0	3.6(\$)	6	4.8	9.6	9.6
Number of branches	in UB	6	8	9	14	3	7	1	5	5	21
	at aimag level	5	5	0	0	3	23	0	2	23	22
	at soum level	0	2	0	1	1	2	0	1	304	333

### Annex 3: Donor Activity in the Financial Sector in Mongolia

Project Name	Description of Activity	Implementing/Executing Institutions	Current Status	Total Funding	Type of Funding	Geographical Areas of Concentration
ADB	Agricultural Finance. Loan Funds through the banking system for agricultural finance	Ministry of Food and Agriculture, Private Banks Sub-Component of the Agriculture Sector Development Program	On-going	US \$ 5.5 million	Loan and Technical Assistance	Darkhan Uuul, Zavkhan, Govi Altai, Khovd, Selenge
ADB	Housing Finance	Uncertain whether this will include a component for low-income households. Project is on-going.				
ADB	Savings and Loan Corporative Development	MoFE, apex institutions, private banks, domestic support organisations	Loan agreement signed	US \$ 15.0 million (US \$ 8.7 million from ADB)	Loan	Initially in Arkhangai, Dundgovi, Zavkhan, Sukhbaatar. 22,000 Beneficiaries expected.
ADB	TA for the enhancement of regulatory and supervisory framework for NBFIs	Activity of the Financial Sector Program II	On-going	/A	TA Grant	Ulaanbaatar
CGAP	Technical Assistance	XacBank	On-going	US \$ 120,000	Direct Grant	Nationwide, primarily Ulaanbaatar
APRACA ACCU	These two regional bodies have provided microfinance and credit union training on an ad hoc basis in Mongolia					
Deutsche Bank	Loan Fund	XacBank	Design		Loan	Nationwide
DFID	Action Research Project Remote Rural Finance	Credit Mongol NBFi, (Parallel financing with UNDP)	On-going	GBP 150,000	Consulting Company	Bayankhador, Ovorkhangai, Arkhangai

<b>Project Name</b>	<b>Description of Activity</b>	<b>Implementing/Executing Institutions</b>	<b>Current Status</b>	<b>Total Funding</b>	<b>Type of Funding</b>	<b>Geographical Areas of Concentration</b>
<b>EBRD</b>	Technical assistance	Ag Bank	On-going	N/A	Contract	Head office
<b>GTZ</b>	Creation of Rural Finance System, TA and Loan Fund	Ag Bank	On-going	DEM 3.0 million	GTZ contractors Grant through MoFE	Ag Bank Office (Ulaan Baator and nationwide)
<b>FMO</b>	Management and Finance Training	XacBank	N/A	N/A	Scholarships	Training conducted in Europe
<b>IFC</b>	Loan Funds to XacBank	XacBank	Pipeline	US\$ 400,000	Loan	Nationwide
<b>IFAD</b>	In-kind credit for livestock re-distribution and vegetable production	Ministry of Food and Agriculture	On-going	US 5.5 million	Loan and TA	Afhangai, Khovsgol
<b>IFAD</b>	Micro-finance amongst vulnerable rural households	Sub-component of the Rural Poverty Alleviation Programme	Pipeline	Approximately US \$4.4 million	Loan	Arhangai, Huvsgul, Bulgan, Khentii
<b>IFC</b>	Capacity Building and TA	XacBank	On-going	US\$ 370,000	Consulting Firm contract	Priliminary X.A.C. Central Office
<b>JICA</b>	Expert Dispatch Program for Banking Loan	Bank of Mongolia, Golornt bank, Savings Bank, T&D Bank	On-going	N/A	Consulting	Ulaan Baator (nationwide impact)
<b>KFW</b>	Loan Fund and Technical Assistance to Credit Mongol	Ministry of Finance, Credit Mongol NBF	Pipeline	EURO 1.3 million	Direct Grant to credit Mongol through MoFE	Urban areas and Aimag Centres
<b>TACIS/ European Union</b>	Financial services for SMEs	Ministry of Industry and Trade, Credit Mongol NBF	On-going	US\$ 0.9 milion	Grant	Nationwide and Ulaanbaator

Project Name	Description of Activity	Implementing/Executing Institutions	Current Status	Total Funding	Type of Funding	Geographical Areas of Concentration
<b>Soros Foundation</b>	Capitalisation	XacBank, Xac/GE Group	On-going	MNT 100.0 Million	Equity participation	Nationwide
<b>Triodos Bank</b>	Convertible Loan	XacBank	On-going	US\$ 0.4 million	Convertible Loan	Nationwide
<b>UNDP</b>	Action research Project, Remote Rural Finance: Loan Funds and operational costs	Credit Mongol (parallel financing with DFID)	On-going	US\$ 150,000	Direct Grant to Credit Mongol	Bayankhongor, Ovorkhangai, Afhangai
<b>UNDP</b>	Netmon support. Second ter lending to S&L Cooperatives	Bank of Mongolia and Netmon	On-going	US\$ 150,000	Direct grant to Central Bank, who then on-lends to Netmon	Nationwide. To date: 43 savings and Loan cooperatives
<b>UNDP</b>	Technical Assistance, GoM Policy Support and Development of Sub-Sector Review	NGO and GoM	On-going	US\$ 26,000	Grant	Ulaanbaator
<b>UNDP</b>	Microfinance component for remote rural areas	Sustainable Livelihood project	Pipeline	US\$ 250,000	Grant through GoM	Nationwide
<b>UNDP MicroStart</b>	Capitalisation	XAC	On-going (TA is finalized)	US\$ 1.2 million	Direct grant in collaboration with MoLSW	Nationwide
<b>USAID</b>	Capitalisation	Mercy Corps International and XacBank	On-going	US\$ 700,000	Direct grant to Mercy Corps	Nationwide

<b>Project Name</b>	<b>Description of Activity</b>	<b>Implementing/Executing Institutions</b>	<b>Current Status</b>	<b>Total Funding</b>	<b>Type of Funding</b>	<b>Geographical Areas of Concentration</b>
<b>USAID</b>	Consultant and Long-term T.A.	Ag Bank including management of Bank	On-going	N/A	Consulting Firm Contract (DAI)	Nationwide, primarily Ulaanbaator
<b>USAID</b>	Capitalisation, and TA of XacBank	Mercy Corps, XacBank	Approval phase	US\$ 1.3 million	Grant	Nationwide
<b>World Bank</b>	Private Sector Development Credit (SME Loan Fund)	Golomt Bank and T&D Bank	On-going	US\$ 12.5 million	Multi-internal loan through GoM	Ulaanbaator (nationwide impact)
<b>World Bank</b>	Financial sector Adjustment Credit – TA Component	Government of Mongolia	On-going	Amount of financing for TA is n/a	Multi-lateral loan	Ulaanbaator (nationwide impact)
<b>World Bank</b>	Wholesale lending Facility for PFI's through Central Bank	Sub-component of Sustainable Livelihoods project	Design Phase (Aid Memoire signed)	US\$ 3.0 million For on-lending to MFI's	Multi-lateral loan	Eight Aimags during Phase I, Nationwide during Phase II
<b>World Bank</b>	Index-based Insurance for herder households	Sub-component of Sustainable Livelihoods project	Design Phase (Aid Memoire signed)	Insurance Component: not available at this time	Multi-lateral loan	