

Microfinance Banking

Enabling Lending Practices in Mongolia

Providing loans to individuals to promote local entrepreneurship and reduce poverty

In an effort to support poverty reduction and long-term development in Asia, UNDP partnered with fourteen different international groups from the public and private sectors to implement a microfinance system that would enable long-term lending and provide borrowing opportunities for impoverished individuals.

By 1995, 36% or 1 million of the 2.4 million people living in Mongolia fell below the poverty line and the gap between the poor and the poorest was continually widening. The late 1990's had proven challenging for Mongolia's financial sector with the closure of 12 insolvent commercial banks. UNDP chose to reconcile the poverty situation by supporting economic growth with equity.

The project's budget consisted of \$2.1 Million USD in total financial contributions from Triodos Bank, CGAP, The Government of Finland and Holland and UNDP.

The original project document adopted an approach of testing multiple strategies to achieve sustainable livelihoods. This built an 'experimentation' model into the overall project approach which encouraged flexibility and innovation. The specific objectives of the project are:

Combining Capital Grants with Technical Assistance: Start-up capital for new microfinance entities as well as technical backstopping; micro-capital grants component for local organizations; technical services component in which a pre-qualified contractor will provide a range of technical services to local recipient organizations

Poverty Alleviation and Poverty Prevention: Address the needs of three categories of the poor—extreme poor, moderately poor, and vulnerable non-poor; basic aim to graduate the poor upward, and to prevent the vulnerable from sliding into poverty

Promoting Diversity, Experimentation and Learning

- 1) Organizations set up as providers of microfinance; and organizations financed to promote and manage user-owned ROSCAs/Credit Unions
- 2) encouraged the use of a variety of international 'best practice' for well-performing microfinance programmes

Capacity Building through Direct Management Support: International management support to all NGO candidates who lacked in-depth experience with microfinance

Location Targeting: Concentrate on the urban *Aimag* centres where there would be a high concentration of poor (57% nationally)

- Country: Mongolia
- Launched: 1997
- Partners: Triodos Bank, CGAP, The Government of Finland and Holland, UNDP
- Program Highlights: \$ 2.1 Million USD budget, 230,000 customers, \$ 153.2 Million USD in assets, 1200 jobs created, reduced poverty levels by 7.5%



In 2002, Mr. Bahiyt assisted his craftsman business with a 600,000 MNT loan (about 500 USD) from XAC Bank. After five years of hard work he built a 6 room wooden house with 200 trees in the yard and purchased a small SUV for his business. Today he and his employee export goods to Kazakhstan.

Two local women's NGOs were initially selected to participate in the programme. In May 1999, the institution obtained a license to operate as a formal financial institution that has continued to provide lending services to impoverished individuals ever since. The almost exclusive focus on individual loans, quality screening and repayment performance enabled XAC (microfinance bank) to attain a reputation of a credible banking operation. Today it has:

230,000 customers, \$153.2 Million USD in Assets; \$59.2 Million USD Deposit Portfolio; \$121 Million USD Loan Portfolio, 18 international shareholders and investors including, 900 new jobs, 300 part-time staff \$2.6 Million USD in state budget contribution

Most importantly, the poverty level has declined from 36.5% to 29% and the human development index reached 0.712 from 0.618 in 1999.