Institutional Transformation—Story of XacBank of Mongolia

SNAPSHOT OF THE XACBANK OF MONGOLIA

The XacBank of Mongolia has successfully transitioned from a microfinance/non-bank financial institution to the fourth largest commercial bank in Mongolia. The keys to this success include:

• Well-coordinated support from development partners, led by UNDP, including the provision of seed funds and necessary technical inputs.
• Capitalization on existing human resources by systematically investing in capacities of national experts and staff.
• Forging of strong partnerships by bringing together key stakeholders from rural communities, non-governmental and civil society organizations, private sector and government.
• Continuous innovation and improvement—XacBank introduces a new range of services every year.
• Implementation of a socially and environmentally responsible business model promoted among the Mongolian private sector—XacBank recently established an Eco-Unit, provides subsidized loans to ‘green’ businesses and promotes sustainable practices such as energy efficiency.

SCALING UP SUCCESS

Transferring the XacBank’s solutions to other countries would require the following:

• Feasibility assessment: the identification of at least one medium-sized bank willing to adopt XacBank’s socially and environmentally responsible business model.
• National experts and leaders willing to support such an institutional transformation.
• The adoption of new business processes and products that support youth and ‘green’ businesses.
• Legislative and regulatory frameworks that are favorable to the banking and business development sectors, particularly in the promotion of micro-loans and SME development.

The related costs of the above activities will vary depending on the country context.
FOREWORD

Scaling up local development innovations is key to achieving sustainable and equitable development, especially when these innovations are driven by national and local governments and actors. In order to best support countries to scale up proven local successes and achieve transformational changes, the UNDP Poverty Practice of the Bureau for Development Policy (BDP) works to build a solid knowledge base and to uncover systematically the enabling environment and drivers for scaling up. In this context, together with the Special Unit for South-South Cooperation we have jointly initiated a series of case studies of “scaled up” development cases. Learning from these country cases, we aim to identify key policy, institutional and political enablers and drivers for a successful scaling up process, and to inspire development partners to transform innovations into sustainable development results.

These cases demonstrate how countries, ranging from middle income countries (such as China, Costa Rica and Mexico) to low income and least developed countries (such as Mongolia and Nepal), were able to drive these processes. Their success, built on leadership and vision, was mainly relying on their own resources and human capacities. Each country story showcases a different development challenge and response—the Mexico story describes the national cash transfer scheme to address inequalities and vulnerabilities, and the China case showcases an agricultural extension programme that spurred rural entrepreneurship. The Costa Rica study addresses an employment creation effort through biodiversity preservation and eco-tourism, and the Nepal story describes the national initiative to supply small scale energy to support rural employment and basic services delivery during and in the aftermath of conflict. Finally, the Mongolia case outlines the successful transformation of Mongolia’s XacBank from a non-bank financial institution to a commercial bank, and its ascendance as a leader in providing innovative and socially responsible services to Mongolian citizens.

Each story identifies key principles, approaches, elements and methodologies that could ultimately contribute to answering the question, how is it possible to scale up a pilot/seed initiative to achieve larger and sustainable development impact? It describes the process of scaling up, capturing the key milestones in the evolution of the scaling up, and distilling the main drivers for success such as the political vision and commitment, internal and external ‘catalysts,’ and political, financial and policy enablers, as well as institutional arrangements and human capacities. The findings of the case studies will be further utilized in the UNDP guidance note on scaling up local development innovations for poverty reduction, as well as the ongoing UNDP efforts of strengthening an integrated approach for local development.

Every country case presented in the series also demonstrates how each innovation has spurred, or bears the potential to spur, a sound South-South collaboration and learning platform, and in some cases, South-North knowledge exchange. A South-South capacity and knowledge exchange initiative will follow the wide dissemination of the case studies during the upcoming South-South Expo.

The partnership expresses its sincere gratitude to the UNDP Special Unit for South-South Cooperation (SU-SSC) and Mr. Yiping Zhou, Director of SU-SSC, for their strong support to this initiative. Without their vision and commitment, this work would not have materialized. We also gratefully acknowledge country offices that have facilitated this work, peer reviewers who helped improve the quality of the case studies, and authors of each country case. Their contributions are acknowledged in each case study. Lastly, in addition to facilitating this initiative, UNDP Poverty Group colleagues have also compiled and edited all the case studies.

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Summary

This case study describes a successful transformation of Mongolia’s XacBank from a non-bank financial institution to a commercial bank, and its ascendance as a leader in providing innovative and socially responsible services to Mongolian citizens. The XacBank story demonstrates how an internationally renowned microfinance lending approach has been adopted to Mongolia’s specific dynamics during the transition period, and how the experience paved the way to expanding national microfinance services to the poor. It reflects on the success of a national institution striving to bring to consumers cutting edge socially transformative products and services.

The XacBank experience enabled the nascent microfinance sector in Mongolia to grow and expand as the Mongolian economy moved away from the centrally planned to a market economy during the 1990s. Today, the microfinance sector has grown extensively in terms of its outreach and coverage, with most commercial banks in the country offering micro and medium-sized credits. Xac Bank also became known as one of the ‘best practices’ in microfinance in developing countries. The comparative success of XacBank was mainly due to bringing on board talented national staff, creating innovative operational procedures and management, laying the ground for sustainability and national ownership from inception of the initiative, and building strong collaboration and support from the United Nations Development Programme (UNDP) and other stakeholders, including national and international non-governmental organizations (NGOs).

Despite the concerted efforts that have been made by the government and development partners to improve the livelihoods of the poor and vulnerable citizen, and steady gross domestic product (GDP) growth over the past decade, poverty levels have only declined by 3.4 percent during 2002 to 2008 (from 30.3 percent to 26.9 percent), and the gap between the rich and poor markedly increased (The MDGs Implementation, Third National Report, 2009). Environmental degradation has become one of the most critical development challenges facing Mongolia. At this juncture of their development, Mongolia has been provided with a unique opportunity to transform dividends from the recently launched large scale mining operations to a sustainable, resilient and equitable growth for all. National institutions, both private and public, including XacBank, are key players in promoting ‘green’ and carbon neutral development, and providing decent employment opportunities to Mongolian citizens.

Context: Mongolia’s development trends

Mongolia is a landlocked country bordering China and Russia, and is dependent on extractive industries (mainly copper, gold and coal). It has one of the lowest population densities around the world, with 2.8 million inhabitants in a land of 1.6 million square kilometres. The average GDP1 growth rate during 2000 to 2010 has been growing 5 percent annually (World Bank 2010, see graph 1). The GDP growth is mostly driven by services (45.1 percent),2 industry, mainly mining of copper, coal, gold and other precious metals (36.8 percent), and agriculture (18.1 percent) (Mongolia NHDR 2011). In 2010, Oyu Tolgoi, one of the largest gold and copper deposits in the world, with an estimated mine life of 40 years, and Tavan Tolgoi, one of the largest coking coal deposits, which has the capacity to produce about 30 million tons of coal annually over the next 30 years, became operational, thus drastically changing the economic outlook of Mongolia in the

1 GDP growth on an annual basis adjusted for inflation and expressed as a percent.
2 Percentage of GDP by sector.
medium term. The average inflation rate remained between 9 to 11 percent and it reached 13 percent in 2010 (NDIC 2010; NSO 2010). Mongolia ranked 110th out of 169 countries in the 2011 Human Development Index (HDR 2011).

Despite the substantial progress made towards achieving the Millennium Development Goals (MDGs), Mongolia still needs rigorous and targeted interventions to meet some of the goals, especially in MDG 1 (halving poverty and achieving decent employment), MDG 7 (ensuring environmental sustainability) and MDG 3 (promoting gender equality at the decision-making level) (MDG Implementation, Third National Report, 2009). As of 2010, 39.2 percent of the population was living below the national poverty line (NSO 2010). Income inequality, as measured by gini coefficient has increased from 32 percent in 2002 to 36.6 percent in 2008 (Mongolia NHDR 2011). According to the multi-dimensional poverty indicator, about 15.8 percent of the Mongolian population is living in multidimensional poverty, with health and living standards dimensions having more pronounced negative trends (Mongolia NHDR 2011). More than 52 percent of Mongolia’s poor households are the working poor (NSO 2010).

In 2007 to 2008, the rural poverty was 46.6 percent compared to urban poverty at 26.9 percent (see graph 2). In the early 1990s, after the collapse of the command economy, most of the migration was towards livestock production due to large scale privatization. Since the late 1990s the internal migration has been reversed to urban areas, mainly to the capital city Ulaanbaatar, causing enormous strains on the infrastructure and environment. Even though “poverty is mainly concentrated in rural areas, urban poor households face multiple vulnerabilities” (NHDR 2011).

Over the past decade, Mongolia has been experiencing adverse effects from climate change. More than 80 percent of the country’s land area is classified as highly vulnerable, and thus poses challenges to diversification of employment opportunities and

3 [www.mongolia-investment.com/tavan-tolgoi](http://www.mongolia-investment.com/tavan-tolgoi) and [icmc-mongolia.net/oyu-tolgoi-investment-agreement](http://icmc-mongolia.net/oyu-tolgoi-investment-agreement)
further exacerbates food insecurity (Batima, 2005 and NHDR 2011). In Asia, Mongolia has the highest proportion of people living on degraded lands (NHDR 2011). Air pollution in Ulaanbaatar city, especially in winter months, sometimes exceeds safe limits posed by the World Health Organization (WHO), thereby contributing to higher incidence of respiratory illnesses, especially among children (NHDR 2011).

Thus, Mongolia’s future development depends on a careful balance of environmental mitigation and adaptation and diversification of employment sources, with a special focus on decent ‘green’ jobs. The story of XacBank below is presented in light of this socio-economic background.

Development of the Microfinance sector in Mongolia: Establishment of XacBank

In 1997, as the Asian financial crisis revealed the vulnerability of the Mongolian economy, UNDP along with the United States Agency for International Development (USAID), Mercy Corps and other development organizations initiated a partnership to promote the financial sector in Mongolia. The MicroStart pilot project document was signed in June 1997 with an initial US$ 1 million grant invested by UNDP. The project became operational in August 1998. It was institutionalized in October 1999 as six participating Mongolian NGOs, Mongolian Women’s Federation (MWF), the Open Society Forum (OSF), Liberal Women’s Brain Pool (LEOS), Rotary Club of Ulaanbaatar, Local Governance Development Fund (LGDF) and the Mongolian Association of Rural Cooperatives, consolidated under MicroStart, created the first registered Non-Bank Financial Institution (NBI). These NGOs were grant investors who assisted in the establishment of the X.A.C fund (Golden Fund for Development). From inception, the project grew dynamically and continuously with the support of UNDP in the design and implementation of the project (Heyn, 2001).

Through 1998 to 2001 XAC, renamed to XacBank, was running a sizeable operation, disbursing a total of 18,237 loans with an estimated worth of US$4.2 million. It had 4,000 active clients and distributed on average 1000 loans per month. XacBank achieved a “break-even” point after only nine month of operation and it was regarded as one of the “success stories” of development activity in Mongolia (Heyn, 2001). The average size of each micro-loan was about US$141 benefiting mostly herders, micro/small businesses, public and private enterprises.

In 2001, the Mongolian Parliament passed the Employment Promotion Law that emphasized the need to promote job creation among the vulnerable groups. XacBank began targeting the vulnerable non-poor, who were just above the poverty line, and increased the loan limit for small and medium enterprises (SMEs).

Other microcredit institutions, such as the Credit Mongolia NBFI, NetMon and others, followed shortly and began offering more diversified financial products with the goal of expanding SMEs’ access to savings and credit (Griffin, 2003). Some commercial banks also started to enter the microfinance market in Mongolia. Today, the number of NBFI’s reached 177 and Savings and Credit Cooperatives to 212, and some NGOs and government projects also provide microfinance services (see table 2).

The level of penetration of microfinance loans was estimated at 72 percent of all households (Microfinance and financial sector diagnostics study, 2009). In 2008, the Khan Bank of Mongolia was ranked first in Eastern Europe and Central Asia in terms of outreach, while XacBank was third in terms of market penetration. With such high penetration rates, the microfinance market is close to saturation, and the main actors of the sectors are now servicing… the SME market. This can explain the relatively high average loan amount, above US$1,000 (PlanetRating, 2011).

Table 2. Microfinance Sector in Mongolia (2011)

<table>
<thead>
<tr>
<th>MFI</th>
<th>Portfolio in US$ millions</th>
<th>%</th>
<th>Active borrowers</th>
<th>%</th>
<th>Average loan (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>KhanBank¹</td>
<td>416.6</td>
<td>70.5</td>
<td>311,196</td>
<td>72.8</td>
<td>1,339</td>
</tr>
<tr>
<td>XacBank¹</td>
<td>137.1</td>
<td>23.2</td>
<td>73,121</td>
<td>17.1</td>
<td>1,875</td>
</tr>
<tr>
<td>MDF²</td>
<td>29.4</td>
<td>5.0</td>
<td>35,548</td>
<td>8.3</td>
<td>807</td>
</tr>
<tr>
<td>Credit Mongol³</td>
<td>4.2</td>
<td>0.7</td>
<td>1,524</td>
<td>0.4</td>
<td>2,765</td>
</tr>
<tr>
<td>TFS³</td>
<td>2.0</td>
<td>0.3</td>
<td>2,941</td>
<td>0.7</td>
<td>698</td>
</tr>
<tr>
<td>VisionFund⁴</td>
<td>1.9</td>
<td>0.3</td>
<td>3,391</td>
<td>0.8</td>
<td>689</td>
</tr>
<tr>
<td>Total</td>
<td>591.2</td>
<td>100.0</td>
<td>427,721</td>
<td>100.0</td>
<td>1,382</td>
</tr>
</tbody>
</table>

Source: PlanetRating 2011; ¹ Mix Market, Dec. 09; ² MDF data Mar. 10; ³ Mix Market Dec. 08; ⁴ Vision Fund data, Dec. 09.

4 The services offered by the Savings and Credit Cooperatives are limited to savings and loans only, whereas NBFI’s also offer payment services, remittances, foreign exchange and, upon authorization from the Bank of Mongolia, financial leasing.
Key Features of XacBank Operations

The TenGer Financial Group (TFG) was established after the merger of XAC and Goviin Ekhlel in 2001, which owns XacBank, XacLeasing, XacSecurity, TenGer Solutions and TenGer Insurance. As of 2011, XacBank became the fourth largest commercial bank in Mongolia, with over 85 branches serving over 249,628 clients (see box 2). It continues to serve urban and rural low income citizens and micro entrepreneurs—about 23.9 percent of its clients still receive loans under US$300, while 70 percent receive loans under US$2,500 (see box 2).

XacBank has a significant outreach, reaching 38.7 adults out of 1,000. 52.6 percent of its clientele reside in rural areas and over 58 percent of the clients are women. However, only 1.7 percent of the clients can provide collateral (PlanetRating, 2011). The majority of micro-loans are used for trade and consumption, with about 10 percent of loans used to support micro-scale production (See Graph 3). In 2008, the bank started a collateral free micro loan service targeting financially marginalized peri-urban citizens (XacBank 2008).

The XacBank had a strong orientation towards under-served groups, but due to the growth of the microfinance sector in Mongolia, it now focuses more on serving SME clients (PlanetRating, 2011). It still maintains its original microfinance outreach through partnership with other institutions such as

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Graph 3: XacBank’s micro loan portfolio by purpose

XacBank’s main goal is to contribute to employment creation by financing micro businesses and SMEs— it provides loans from US$729 to US$3,644, with a lower interest rate (about 15 percent, compared to the national lending average at 22 percent) to companies and individuals that aim to create jobs (PlanetRating, 2011). XacBank also collaborates with Mongolia’s Ministry of Social Welfare and Labour to create and increase job positions through the Income Generation Fund that provides loans at interest rates between 0 and 1.25 percent. As of 2010, about 3,025 jobs were expected to be created by borrowers who received the fund. However, the overall contribution of XacBank towards poverty reduction and employment generation is difficult to assess, echoing the larger debates on whether or not microfinance lifts the poor out of poverty (see box 3).

Box 3. Microfinance and the Poor

Since the mid-1980s, microfinance began to capture the global attention of many development practitioner as a powerful tool to alleviate the poor out of poverty. The term microfinance refers to a full range of financial services and products that are accessible to low-income individuals. This includes not only credit services, but also savings, insurance, and money transfer. Many studies have looked closely at questions such as -does microfinance really help the poor? Are stories of microcredit institutions oversold? Unfortunately, there is no simple answer to this. Even the Consultative Group to Assist the Poor (CGAP) claims that “it seems an honest summary of the evidence to say that we simply do not know yet whether microcredit or other forms of microfinance are helping to lift millions out of poverty” (Rosenberg 2010:3). Nevertheless, Collins and Morduch (2009) made a compelling case based on annual financial diaries of microcredit participants that the major income insecurity lies not in the amount of the loan, but in the irregularity of the income sources. Microfinance services largely help the poor to smooth their consumption and pay for necessities such as health and education, and prevent them from falling into the hands of the informal financial mechanisms. The MIX Market’s 10-year time-series data on hundreds of Microfinance Institutions (MFI) showed that the vast majority of households maintained high repayment rates, at 99.3 cents of repayment for every dollar on a six-month loan. Such high levels of repayment indicate that the poor microfinance consumers value the ‘palliative’ utility of microfinance without indebting them. Like any social programme in primary education or health, microfinance, if done right, needs decades before its impact can be tracked on human development.

Source: Rosenberg, Richard, 2010 and MIX Market, 2009)
Box 4. Client’s Profile: Ms. Tsetsegdelger, ‘The Art of Survival’ *

Ms. Tsetsegdelger is from Bulgan province, situated in the northern tip of Mongolia. Ms. Tsetsegdelger is considered a ‘jane of all trades’ and has a true talent for diversification. Her businesses range from the production of cotton shopping bags, a chicken farm, a vegetable greenhouse, firewood, flowerpots, and fruit tree orchard. She developed a wide range of businesses in order to keep herself and her family employed all year around. Following a series of misfortunes, including a grave illness of her daughter, Ms. Tsetsegdelger lost her job as an accountant, and had to start from the bottom. She received training from local NGOs on vegetable harvesting, and with a series of soft loans from XacBank, ranging from US$83-US$1,667, she was able to invest in a greenhouse, a chicken coop, and fruit tree orchard. With these initiatives, Ms. Tsetsegdelger was able to provide her family with nutritious meals. She says; ‘I believe that for low income families, they need to venture into many types of businesses… [In addition to loans] there was also a lot of hard work and determination that helped me become successful, I was prepared to do anything. All I knew was that I needed a job to survive and look after my family.”

* The client’s profile is an extract from Saha et al., Portraits of Change: Exploring the changing people, nature and economics of Mongolia, to be published in 2012, quoted her with the permission of XacBank.

Scaling Up of XacBank: Key Enablers and Innovations

Enablers

Vision of Social Responsibility. XacBank’s vision is to become a leading socially responsible financial institution in Mongolia, spearheading innovative products and services. It has a so-called triple bottom line mission, which include a) contribution to socio-economic development; b) maintenance of a premium customer service, usage of ICT and innovative technologies, and establishment of effective partnerships, and c) provision of inclusive and value adding financial services to the citizens (XacBank, 2008).

XacBank strives to introduce new products, while strengthening its current partnerships and services. Its current loan portfolio consists of business loans; agricultural loans; consumption loans; and other loans (wholesale, deposit backed, apartment pledged, mortgage and leasing). Its innovative savings products include Future Millionaire — child long term savings; Age Gracefully — long term savings; Xac palace — housing deposit; Treasure — time deposit (pay-ins allowed); Wealthy — time deposit (pay ins not allowed); Sprinkle — time deposit (interest withdraw able); and Aspire — Savings for girls. The total number of active Future Millionaire saving deposits reached over 80 thousand and volume reached US$24 million.

Empowering Women. XacBank’s success and national recognition is due to its women clients, who constitute nearly 60 percent of borrowers. At the household level, women are in charge of household finances, often leading family businesses, and micro-and- small enterprises. Due to migration, many rural households are headed by women. Thus, they constitute an important client base for XacBank. XacBank signed the Women’s World Banking (WWB) network’s pledge, to ‘support the empowerment of low-income women as entrepreneurs, leaders and partners for change.’ In addition to its regular women clientele, in partnership with the Woman’s Association of Mongolia, the bank has been providing group loans to vulnerable rural women since 2007, in addition to individual loans.

Investing in Future Generations. In 2008 XacBank, began to strategically influence the financial behaviour of the young generation in Mongolia. With 33 percent of the bank’s client comprising youth between the ages of 18 and 35, the bank had a strong incentive to improve financial literacy and responsibility of current and future clients. As a recipient of the Income Generation Fund of the Ministry of Social Welfare and Labour, the Bank is promoting entrepreneurship among the young population by providing financial support, training and services. Business support and financial education to the youth are means to not only establishing perpetual client loyalty, but also creating a socially and financially responsible next generation (XacBank 2009). Since 2008, XacBank has been providing financial literacy trainings to girls and boys between the ages of 14 and 18, successfully reaching out to children in more than 130 schools (CreditRating, 2011). It plans to reach out children between the ages of 8 and 13, and extend the financial education services to more schools.

Responsible Corporate Governance. XacBank introduced corporate governance policies and practices, including a full disclosure of its business practices, regular consultation among stakeholders, and rigorous internal and external monitoring systems. Although a regular business practice in advanced economies, the business practice introduced by XacBank has become a flagship of responsible corporate governance for
Box 5. XacBank’s South-South Learning Experience

Investment in Mol Bulak Finance, the Kyrgyz Republic

In 2009, XacBank undertook its first pilot international investment in Mol Bulak Finance (MBF) Company in the Kyrgyz Republic, for dissemination and replication of its successful microfinance institutional model, as part of its regional expansion strategy under its parent company — TenGer Financial Group. The key focus of this practice sharing initiative was on the development and market introduction of a range of innovative products and inclusive services to people with limited access to finance, and the development of the national staff capacity of MBF, especially in the areas of business planning, risk management, finance and accounting, corporate governance, and microcredit management. The partnership helped transfer the financial technology developed by XacBank over the past 10 years to a small, nascent microfinance institution that was operating in a large market with the potential to grow, and which has a huge demand for micro and small credit services from the population. This practical knowledge sharing and on-site business learning experience included a field level appointment of XacBank staff as a chief financial officer in the local company. The end result was emergence of a strong and developed organization with more capable staff members in just one-year’s timeframe, with seven times increase in assets, expanded national market outreach, and the partnership with a range of reputable microfinance investors and international partners for further institutional growth.

Greenfield Microfinance International Expansion into China

After the review of current goals, TenGer Financial group has made inroads into China. Presently, a process is underway to plan, register and develop a micro credit company in China’s Xinjiang-Uighur Autonomous Region. Discussions with potential Chinese partners and international co-investors have been fruitful leading to a strong network of partners, resulting in establishing a first green-field microcredit company — Tian Rong (i.e. Tenger Finance), including joint equity financing and planned technical assistance from the International Finance Corporation (IFC) as well as a business partnership with two reputable local Chinese co-investors.
Mongolia, useful to other transition economies. Responsible board, timely and accurate disclosure and transparency, strong executive management team and well trained staff were major elements of internal forces of success. (XacBank 2001, 2003, 2009)

**Smart Partnerships.** Running a partnership is a delicate operation requiring individuals who can understand and work with different organizations and at the same time manage their demands (OECD, 2006). XacBank has succeeded in creating a sustainable and profitable business with continued social mandate through its successful partnerships with the government, international organizations, such as UNDP, EBRD, IFC, NGOs and many private entities. XacBank also created a partnership with several media and broadcasting institutions, including the Mongolian National Broadcasting for the public outreach on financial education, and with private companies such as Petrovis, the petroleum importing corporation, on fostering green development.

**Innovations**

**Mobile Banking, Communications Outreach and Technical Support.** In 2009, XacBank introduced a mobile banking system called AMAR ('Easy’ in Mongolian) to service the poor clientele mainly in rural areas. As of 2010, the total number of AMAR clients reached about 60,000. This mobile banking system has been expanding with the reliable and growing connection of mobile phones in rural areas. XacBank also established partnerships with major mobile networks in the country, in order to reach nomadic households and communities living in very remote areas. It is anticipated by the Bank’s management that more than half of the country’s population could be reached by AMAR by end 2012. Marketing and technical/agricultural extension support for the agricultural clients is also conducted by the AMAR system.

XacBank recently launched the Microfinance Centre, in order to advocate the usage of loans for productive activities. The centre created a knowledge forum and an international partnership to create top expertise on microfinance in Mongolia. The centre also hosted a TV reality show entitled ‘Life is Always Beautiful’. Using the TV show, the bank provided loans to extremely poor candidates, provided skills development trainings to help develop small businesses. The centre also provided trainings on financial literacy for adults and youths.

**Eco-Products.** In 2009, XacBank created Eco-Product Unit, and became the first bank in Mongolia to have developed energy-saving lending products (PlanetRating, 2011). This unit works in partnership with several other financial institutions, including Microenergy Credits (MEC) to purchase the carbon emissions reductions generated through energy savings, and the money is then used to expand the project. To date, about 4,000 eco-friendly loans have been provided, for products such as efficient cooking stoves, solar home systems, housing insulation blankets etc (PlanetRating, 2011). XacBank also introduced an economic, environmental and social performance reporting system under the Global Reporting Initiative (GRI). The system allows the bank to continuously track the impact of its clients’ business activity on the environment, and encourage utilization of social services and ‘green’ technologies by clients. As an added incentive, clients who have been with XacBank for more than 180 days and who fulfill more than 50 percent of the indicators receive an interest rate discount on their micro loans (XacBank 2009). XacBank is also collaborating with The Dutch Development Bank and FMO on a Clean Energy Project and with UNDP on the Building Energy Efficiency Project.

**Capacity Development of Mongolian Microcredit Institutions.** XacBank participates in a unique approach to developing more inclusive access to financial services by the rural poor and low-income families through franchising 75 Saving and Credit Cooperatives (SCCs), endorsed under a cooperation agreement with the Financial Regulatory Commission (FRC). The bank has been providing institutional capacity development and technical assistance in modules- business planning, accounting, programme software and credit risk management. Based on its own institutional risk rating of these SCCs, XacBank further provides at a subsidized rate, the so-called ‘whole-sale’ loans for further re-lending to local communities in most remote rural areas.

**South-South Learning and Sharing.** XacBank and TenGer Financial Group professional staff have been continuously engaged in micro finance advisory and consulting services since 2008, and have been contributing to developing microfinance capacities in Asia, Central Europe, CIS countries, Latin America and Africa. MFIs of other countries send their staff to be trained at XacBank and TenGer Financial Group. Examples of such exchange include Russia, Kyrgyzstan, Tajikistan, Kazakhstan, China, Uganda, Bosnia, Cambodia, El-Salvador, Timor-Leste, and Pakistan. The international learning and sharing initiatives are seen as complementary to the main activities of XacBank, and go hand in hand with strengthening of services in Mongolia. In order to successfully exchange experiences, the TenGer group has built an efficient team of dedicated professionals (TenGer Financial Group, 2009).
Conclusion

Despite the government policies and reforms towards reducing poverty, including creation of a legal and institutional framework and a favourable enabling environment for the growth of the microfinance sector, poverty, both urban and rural, has not declined significantly in the past decade, and rural poverty has even increased. Access to finance alone cannot bring lasting poverty reducing impact. The multidimensional nature of poverty and vulnerability in Mongolia, especially its increased vulnerability to climate change and environmental degradation, requires concerted and integrated efforts from the government, public and private institutions and civil society organizations across a variety of sectors—economic and financial, environmental and social.

The country’s GDP is poised to at least double in the coming years, mainly due to the exploitation of the two of the world’s largest mining deposits, Oyu Tolgoi (copper and gold) and Tavan Tolgoi (coking coal). The real test for Mongolia’s future sustainability is its ability to translate the mining dividends into economic diversification, and create decent employment opportunities for its poor and vulnerable citizens. The Mongolian Government has pledged to invest the gains in infrastructure development projects, which in turn may improve the linkages between producers and markets/consumers, and market access for rural businesses. The government is also taking steps towards decentralized service delivery, which may solve the current problem of over-population in Ulaanbaatar city, due to the under-development in rural areas and internal migration.

The way forward for expanding inclusive finance is to support the existing microfinance platforms, introduction of innovative products and services by national institutions, as was in the case of XacBank, and financing of SMEs and promotion of public-private partnerships for development. These efforts should be complemented by other efforts aimed at improving capabilities of all Mongolian citizens, coupled with climate change mitigation and adaptation initiatives. The only way to avoid ‘the resource curse’ for Mongolia is to invest in sustainable and resilient development for the future generations.
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In person and telephone interview with TenGer Financial Group and XacBank staff and XacBank clients.

Acknowledgements

This case study was developed by Tuya Altangerel of UNDP, Poverty Group, with contributions from Nazia Habib-Mintz, and Nergui Dorj. Invaluable comments and advice were provided by Maleye Diopp, UNDP Capacity Development Group, Dojinsuren Jambal, UNDP Mongolia country office, Tur-Od Lkhagvajav, XacBank, Xiaojun Grace Wang and Chanmi Kim, UNDP, Poverty Group, and Farzand Ali. Sincere gratitude to Shams Banihani for copyediting the report.

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