

## Signing of Japanese ODA Loan with Mongolian Government

- Aiming for Sustainable Development through Small and Medium-Scaled Enterprises Assistance -

1. On November 19, the Japan International Cooperation Agency (JICA) signed an agreement with the Mongolian government to provide a loan of up to 5.0 billion yen for assistance for the Two-Step-Loan Project for Small and Medium-Scaled Enterprises Development and Environmental Protection PhaseII.

2. This project is phase 2 of the Two-Step-Loan Project for Small and Medium-Scaled Enterprises Development and Environmental Protection (a loan agreement in March 2006 for 2.98 billion yen), for which a Japanese ODA loan was provided in FY 2005, and provides long-term financing through commercial banks in Mongolia to small and medium-sized enterprises (SMEs), which compose the majority of private businesses in Mongolia and are the main actors for economic development. The other objective of this project is to promote environmental conservation measures, and capital investment is targeted to counteract air pollution in urban regions, a problem growing in severity. The funds for the project will be allocated to long-term financing of SMEs, including environmental businesses, as well as to expenses for consulting services, such as training for capacity improvement of SMEs and banks.

3. SMEs compose at least 90 percent of private business in Mongolia, and play a vital role in the economy. Nevertheless, despite the high capital needs of SMEs given the active state of the economy, loans from commercial banks are primarily short-term, and particularly SMEs with low credit lack the long-term financing they need for capital investment. Furthermore, no financing system has been established for environmental initiatives. The economy of Mongolia is dependent on the mining sector for approximately 30 percent of GDP and 40 percent of government revenue, a structure that is vulnerable to fluctuation in the international market conditions for mineral resources. As the mining sector is expected to continue to drive economic growth [1], sustainable and balanced growth needs to be maintained through diversification of domestic industries. With these conditions, this project will respond to the needs of SMEs in Mongolia while supporting the implementation of environmental measures.

4. JICA has a history of supporting market-oriented economic reform in Mongolia. Through this project, JICA will support training and strengthening of the private sector as well as industrial development, and aims for sustained, balanced growth in the rapidly growing nation of Mongolia through the development of mineral resources. Additionally, this project will be coordinated with the Mongolia-Japan Center for Human Resources Development Cooperation (Phase 2) and the Capacity Development Project for Air Pollution Control in Ulaanbaatar City, technical cooperation projects currently under implementation, thereby working to improve the capacity of end user SMEs and commercial banks and supporting a multifaceted approach to industrial development in Mongolia.

5. Through phase 1 of this project, 145 loans have been provided to date. This has created employment for more than 1,300 people, and contributed to a reduction in the some 18,000 tons of coal usage.



Signing Ceremony



Phase 1 loan recipient 1: a hog farm



Phase 1 loan recipient 2: a coal briquette production plant

## Reference

### 1. Terms and Amounts of Loan

Project title	Amount (million yen)	Annual interest rate (%)	Repayment period (years)	Deferment period (years)	Procurement
Two-Step-Loan Project for Small and Medium-Scaled Enterprises Development and Environmental Protection PhaseII	5,000	0.65 0.01*	40 40	10 10	Untied

\* An interest rate of 0.01% applies to the consulting service portion.

### 2. Project Summaries

#### Two-Step-Loan Project for Small and Medium-Scaled Enterprises Development and Environmental Protection PhaseII

##### Executing Agency

Ministry of Finance  
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##### Planned Implementation Schedule

- (i) Completion of project: June 2014 – when JICA completes the lending process to the Ministry of Finance
- (ii) Issuing of letters of invitation for consulting services: December 2010
- (iii) Tender announcement of initial procurement package for international competitive bidding on project construction: Although there will be no tenders for construction, economic activity is expected to result as successive projects develop from sub-loan funding provided by intermediary financial institutions.

##### Note

[1] The investment agreement for the Oyu Tolgoi copper mine concluded in October of 2009 is said to be the largest ever. The International Monetary Fund predicts an average annual growth of 13.3 percent from 2010 to 2015.

