

Pro-Poor Innovation Challenge Round VIII

Organization and Project Profile: XacBank

Baseline Profile: April 2006

I. **General Information: (please complete the information in the section below)

Name of Organization:	XacBank LLC
Location: (City, Country)	Ulaanbaatar, Mongolia
Mission of Organization and year founded:	XacBank was founded September 1998. The mission of the XacBank is first, to contribute to the socio-economic development of the country by providing access to comprehensive financial services to all citizens and legal entities, including those who are normally excluded, e.g. low-income and remote rural households. Second, but equally important, is to maximize the value of shareholder’s investment, while creating a profitable and sustainable financial institution
Products/Services offered:	<p>Microloans – These types of loans are primarily for micro- and small-business people engaged in trading, production and services informally or semi-formally. To ensure stable business growth, increase fixed assets and expand current business activities, size of loans increase as borrowers’ businesses grow further.</p> <p>Consumption loans - directly target public sector employees and other salaried employees as well as business people for consumption purposes.</p> <p>SME loans – Loans to small and medium size enterprisers to support entities with clear business objectives and sound track-records</p> <p>Agricultural loans – Individual herder loans, herder group loans and loans to individuals and entities engaged in agricultural and horticultural businesses.</p> <p>Wholesale loans- Loans to Savings and Credit Cooperatives (SCCs) and MFIs to cover the shortage of funds for future expansion and to provide them with additional loan funds in order to meet the demand of cooperative members or clients.</p> <p>“Development Guide” Franchising service- Technical assistance service to SCCs to determine a sustainable financial provider in remote rural areas and to open an access to professional financial services to low income rural people.</p> <p>Savings and current accounts – The Bank offers various types of time and demand deposit products</p> <p>Financial Lease – Provides financing to purchase home electric appliances, vehicles, office equipment, light industry and mining machineries</p> <p>Home Mortgage - Provides long term financing of 50-80 percent of average cost for apartment purchases</p> <p>Training – In rural communities the Bank organizes free trainings to facilitate the creation of SCC’s</p>
Do you work in rural and/or urban areas?	The Bank works in both urban and rural areas. Over 70 percent of the branches and extension units are in rural areas and 163 soums are reached with either mobile banking or franchising services.
General Client Profile: (poverty level, occupations, gender, etc.)	Small or informal business borrowers at year end of 2005 comprised 37 percent of the total number of borrowers, and the percentage of loans to the trade sector is at 41.2 percent. Consistent with its mission of a micro-lender, over 99 percent of the Bank’s total borrowers received loans less than MNT 5 million. Additionally, women borrowers comprise 53 percent of total borrowers, while loans received by women comprise 48 percent of the total portfolio.

II. PPIC-Program Information:

Pro-Poor Innovation Challenge Round VIII

Organization and Project Profile: XacBank

Baseline Profile: April 2006

<p>What is the innovation financed with PPIC funds?</p> <p>What is the client profile of participants in this specific project?</p> <p>How is this project different than what you already do within the organization?</p> <p>How is this innovation different than what other MFIs do in your market?</p> <p>How will this product/service help with the overall purpose of the project?</p> <p>What is the timeline for this project?</p>	<ul style="list-style-type: none"> ➤ Organize competitions among cooperatives and award the winners with various financial and non-financial supports such as providing offices and trainings <p>Rural areas of Mongolia, especially soums, have the highest poverty level. Therefore, no less than 80 percent of cooperative members, the beneficiaries of the franchising service, have incomes lower than average income level. 60 percent of members are female and 30 percent are nomadic herders and people engaged in other agricultural businesses</p> <p>The franchising service is a comprehensive service package that contains financial service, trainings and TA, MIS, and advisory services. This particular feature differentiates it from other services of the Bank.</p> <p>Commercial banks, NBFIs and SCCs are operating in the financial sector of Mongolia. Most of those institutions are focused in urban areas; therefore, access to microcredit in rural areas is very poor.</p> <p>The Development Guide has already brought the following impacts into rural communities:</p> <ul style="list-style-type: none"> ➤ By increasing the number of financial service providers, DG opens opportunities to rural citizens who have an alternative choice of financial services in their localities. This is in addition to facilitating competition among service providers to decrease the cost of credit service. ➤ By joining into cooperatives local citizens who not only receive financial services, but who also become owners and beneficiaries of profits made by the cooperatives ➤ Members are able to monitor the financial and other status of the organization. Their requests and opinions about service quality and conditions will be incorporated into the cooperatives policy ➤ Social activities organized by cooperatives facilitate community integration and provide more opportunities for personal development ➤ Created competitive environment in rural areas for financial service providers by changing the monopoly position of the only commercial bank operating at the soum level ➤ As a result of the sustainable business operation, cooperatives became regular tax payers, thus contributing in the community development and local fund mobilization used for the well being of the local people <p>The cooperatives are playing an important role in eradicating poverty and improving livelihoods of residents through improved access to financial services. A network of the cooperatives is becoming an effective channel to deliver social, environmental, and health education activities. Through the network of cooperatives, other financial services, such as insurance and leasing, could be introduced into rural areas.</p> <p>This project component of the franchising service will be implemented for two years.</p>
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Pro-Poor Innovation Challenge Round VIII

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III. Progress to date: Challenges and Lessons Learned

**Learning questions:

1) How do you measure the profitability of the Development Guide business line?

1) Profitability of the Development Guide has been calculated by margins of following incomes and expenses

- Incomes of franchising service includes franchising fees, interest income, the commission of wholesale loans, MIS rent income, and commission fees of money remittance services.
- Direct expenses related to the franchising service include cost of funds, loan loss provisions, salary, trip expenses, fuel and communication expenses etc; indirect expenses include related percentages of equipment depreciations, electricity and office rent

2) How do you ensure membership oversight of management?

2) The franchising package has the following procedures to ensure membership oversight of management:

- 3 to 5 people are elected from all members meeting by secret ballot to form a monitoring board. The board conducts planned or sudden examinations every month and reports to the all-members meeting. Also, the board has rights to call for non-regular meetings of all members if necessary.
- According to cooperatives' charters, any member has the right to require financial statements and membership files. Also, the all-members meeting can be called by over 66.6 percent of members if necessary.
- Members invest into shared capital upon entrance, which is the main factor of the monitoring expenditure of funds and capitals; therefore cooperatives have comparatively good internal monitoring structures

XacBank will ensure that members feel empowered and engaged enough to effectively monitor SCC management through the following mechanisms:

- According to the franchise agreement, XacBank has the right to attend SCC's Board meetings with a consultative role and ALL members' meetings to observe and provide information.
- XacBank conducts monthly audits and monitoring on SCC's activities, thus in case of any risk involved or about to occur, the Bank consults SCC's management, and informs all members if necessary.
- XacBank organizes trainings not only for SCC's management staff but also for members; therefore members are aware of their rights and the importance of monitoring SCC management.

3) How can you preserve members' repayment incentives while providing wholesale funding to coops?

3) Implement the following measures to encourage members to pay loans on time:

- Members applying for loans for the first time are enrolled in trainings to familiarize them with the importance and benefits of efficient utilization of loans and on-time repayment for themselves and the cooperative, as well as penalties to apply in case of delinquency or non-payments.

4) How can technology be used to link cooperatives to transfer and payment

4) All soums of Mongolia are connected into the landline telephone communication network. Based on the existing communication line, money

Pro-Poor Innovation Challenge Round VIII

Organization and Project Profile: XacBank

Baseline Profile: April 2006

<p>systems?</p> <p>5) Can banks provide high-quality financial services to rural areas through cooperatives?</p> <p>6) What challenges have you faced both internally and externally?</p> <p>7) What lessons has your organization learned</p>	<p>remittance and transaction services are made available for SCCs:</p> <ul style="list-style-type: none"> ➤ Installed landlines in offices of SCCs; offices are also provided with fax machines (some soums communication system are transferred into digital system thus internet became available) ➤ Members' fund transaction orders completed on approved forms are sent to XacBank branches through fax/internet ➤ Upon receiving the forms XacBank branches perform the transactions through the Bank's internal system and at the end of the day, the Bank checks the balance with cooperatives <p>From year 2006, the Government is implementing policies to broadly introduce mobile phone service to soums, therefore data transmission process from soums is becoming more reliable and efficient.</p> <p>5) Banks opening and operating branches in soums is costly and inefficient due to limited market size. Also the internal controlling structure is poor, but we expect that banks can provide high-quality service through SCCs because this approach has the following advantages:</p> <ul style="list-style-type: none"> ➤ SCCs are membership based institutions; therefore there are fewer possibilities of risks. ➤ Management of cooperatives is elected by members, so they serve for the members benefits ➤ Members can control the cooperative's operation with direct and indirect systematic approaches; therefore cooperatives provide fast, transparent and loyal services to members <p>Currently, XacBank is the only commercial bank or financial institution providing financial services through SCCs in Mongolia.</p> <p>6) Internal challenges encountered to the Development Guide :</p> <ul style="list-style-type: none"> ➤ Set-up operational cost is high ➤ High cost of funds ➤ Time consuming process due to reach remotely located areas <p>External challenges:</p> <ul style="list-style-type: none"> ➤ Rural citizens poor knowledge and understanding about rural cooperatives ➤ People's trust towards cooperatives are lowered due to ill operation of some cooperatives ➤ Lack of educated human resources for management of cooperatives ➤ Organizing open meetings and trainings to provide information to community residents and supporting their own initiatives to develop cooperatives are proven to be important for building solid and dynamic cooperatives ➤ As there is a lack of people with financial knowledge in soums, a better way to deal with this human resource issue is to provide trainings for quick learners who have positive attitudes and continue with on-the job training <p>7) Since the implementation of franchise cooperatives XacBank has</p>
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Pro-Poor Innovation Challenge Round VIII

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Baseline Profile: April 2006

<p>while conducting this project?</p>	<p>learned the following lessons:</p> <ul style="list-style-type: none"> ➤ In order to catalyze implementation of SCC's, offering grants and financial support is not appropriate and might lead into creation of cooperatives with different purposes. Instead, through trainings and meetings making local population aware with benefits of having a financial service provider owned, operated and managed by themselves plays a key role in the establishment of sustainable cooperatives. ➤ It showed that providing adequate non-financial services, such as trainings and technical assistances to staff and governing bodies of SCC's is more useful for further development of the cooperatives than financial services such as wholesale loan and financial lease. ➤ Different training modules and technical assistances should be applied for SCC's depending on their development stages, thus appropriate training packages and technical assistance policy needed to be developed.
<p>8) What factors have been key to your success with the Development Guide?</p>	<p>8) Main success factors of DG are:</p> <ul style="list-style-type: none"> ➤ Provided equal opportunities and information for rural population through community meetings and thorough trainings ➤ The franchise package was developed as an efficient combination of international cooperatives' principles and the professional financial institution's system ➤ SCC's were implemented based on community population's initiatives and needs rather than external influence with financial offers ➤ XacBank staff have been available for SCC's to provide consultancy, monitoring, training and other supports on regular basis as well as when they needed
<p>9) What would you do differently next time?</p>	<p>9) Currently we have the following specific actions to take for further improvements:</p> <ul style="list-style-type: none"> ➤ Involve the cooperatives in programs for rural citizens and herders ➤ Finance lease to SCC's for computers and printers. ➤ Set up an MIS system for the cooperatives. Series of trainings will be conducted to cooperatives staff. ➤ Create database for each franchise using the new MIS and build integrated information base. Establish a ranking system of SCCs. ➤ Training and workshops for the cooperatives on management and accounting for cooperative management and staff. The Bank intends to organize workshops to support experience sharing among cooperatives. ➤ Close cooperation with government and Cooperative associations. ➤ Launching other financial services through the cooperatives, such as domestic money remittance and transaction services throughout the country.
<p>10) How far can the franchising concept go? Can XacBank put its logo on any of the coops, and what benefit does this bring?</p>	<p>10) The franchise concept is not only about providing financial services to rural areas, but also a way to develop community integration and to strengthen capacity.</p>

Pro-Poor Innovation Challenge Round VIII

Organization and Project Profile: XacBank

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	<p>The Development Guide has its own logo that XacBank puts on all printed materials and forms of the franchise package, boards and promotional displays located inside the SCC's premises. Additionally, XacBank funded a nationwide TV ad and broadcasted program linking the DG and XacBank. These help in increasing public awareness of XacBank's mission and commitment to deliver financial services to rural areas with sustainable manner.</p>
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IV. **Key Indicators: (please complete the information in the section below)

General:	Baseline April 2006	6 months October 2006	12 months April 2007	18 months October 2007	24 months April 2008
Total Clients:	54,700				
Portfolio Outstanding (US\$)	USD 34.2 million				
Portfolio at risk in DG coops (%) , specify number of days	3.2% (1 - 90 day)				
PAR (as above) for all coops in Mongolia	18% (more than 1 day)				

Outreach:

# of soums covered	58				
# of members in DG coops	3,262				
% women clients	61.3%				

Poverty Outreach:

Average loan size	USD 198				
Type of housing for clients (house, tent, condominium, etc.)					
Tent	34.5%				
Condominium	65.5%				

Sustainability:

Return on Equity (DG coops)	23.2%				
ROE (all coops in Mongolia)	N/A				
ROE (XacBank)	19.1%				

1USD = 1,200 MNT