



Mongolia: Payment System Modernization Project

Project Name	Payment System Modernization Project	
Project Number	46312-001	
Country	Mongolia	
Project Status	Active	
Project Type / Modality of Assistance	Loan	
Source of Funding / Amount	Loan 3072-MON: Payment System	
	Ordinary capital resources	US\$ 20.00 million
Strategic Agendas	Inclusive economic growth	
Drivers of Change	Governance and capacity development	
Sector / Subsector	Finance - Banking systems and nonbank financial institutions	
Gender Equity and Mainstreaming	No gender elements	
Description	<p>The current payments system is composed of an interbank payment infrastructure and a retail payment infrastructure. The former covers the real time gross settlement system (RTGS) for high-value transactions and the low-value payments system (LVPS) for low value transactions. It also covers the auctioning and trading of foreign exchange and securities, although the present system does not cover collateral management nor the pledging of securities/bonds. This includes a General Ledger system that is now outdated and needs to be integrated with participating banks statutory accounts with BOM. The retail payment infrastructure is based on the Electronic Transfer System (ETS) system acquired by BOM and covers electronic fund transport at point of sale / automatic teller machine (EFTPOS/ATM) switching but it can also support card and merchant management and EMV (Europay, Mastercard and Visa) and hybrid cards. To be able to accommodate these however, the ETS needs to be upgraded.</p> <p>The current system was built with support from the World Bank under its Financial Capacity Development Project completed in 2009 and considered one of its successful interventions under the project. However, it was recognized even at the close of the project that the payments system needs to undergo further development as market requirements evolve and due to technical limitations of the system as well as to address policy issues that emerge. The issues that need to be addressed include:</p> <ul style="list-style-type: none"> (i)_ability of the current software to accept future expansion of services and reliance of the current system on the current application provider for upgrade and maintenance; (ii)_design of an open, flexible, modular architecture that can accommodate the introduction of new electronic payment services, as well as money and capital market instruments that suit evolving market needs and provide transparency, reduction of cash circulation in a modern broadband connected environment; (iii)_development of an Eco System which ensures interoperability and competitiveness between service providers that may be implemented by competing institutions to avoid fragmented services and avail of scale economies; (iv)_develop local standards and authentication procedures that more appropriately meet local requirements aligned with prescribed international standards; (v)_set-up business continuity and disaster management plan to address system vulnerabilities such as network and system failure (computer crashes) and computer hacking, among others; and not the least; and (vi)_establish an appropriate legal/regulatory framework that provides for the use of digital signatures, conduct of electronic payments, etc. and required authorities for oversight and supervision, market discipline and transparent rules. <p>A Payments Law is currently under consideration. More importantly, the current system's processing cost has been calculated to reach about 20 times that of the Republic of Korea's on a per transaction basis and has been increasing at the rate of 10% per year.</p>	
Project Rationale and Linkage to Country/Regional Strategy		

Impact	Modern payment services are available throughout Mongolia and easily accessible even by citizens who live in distant rural areas or abroad or are not clients of a bank.
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Project Outcome

Description of Outcome	National full-service payments system established that is efficient and affordable by poor individual
Progress Toward Outcome	The BOM submitted the draft national payment system law to the Government in December 2016 and will be discussed during the spring session in 2017. Two out of 18 contracts for goods and works have been awarded: (i) core network devices and security network upgrade for the National Electric Payment System (NETC, national competitive bidding), and (ii) fiber network extension (ring network topology) of the NETC (direct contracting).

Implementation Progress

Description of Project Outputs	Interbank payment systems infrastructure strengthened The retail payment systems infrastructure and support systems upgraded External services and technical support provided Legal and regulatory framework established
Status of Implementation Progress (Outputs, Activities, and Issues)	The ACH consultant and the core banking system consultant were recruited and fielded in October and November 2016. Not due yet. Not due yet. Not due yet. Not due yet.
Geographical Location	

Safeguard Categories

Environment	C
Involuntary Resettlement	C
Indigenous Peoples	C

Summary of Environmental and Social Aspects

Environmental Aspects	NA
Involuntary Resettlement	NA
Indigenous Peoples	NA

Stakeholder Communication, Participation, and Consultation

During Project Design	The Bank of Mongolia and the National Payments Center were consulted regularly over project design.
During Project Implementation	Regular communication occurs between ADB and the executing and implementing agencies. The first loan review mission was carried out on 10-14 April 2017. The next review mission is planned to be executed in November 2017.

Responsible Staff

Responsible ADB Officer	Enkhbold, Enerelt
Responsible ADB Department	East Asia Department
Responsible ADB Division	Mongolia Resident Mission
Executing Agencies	<i>Bank of Mongolia (Central Bank) Commerce Street 6 Ulaanbaatar - 11 Mongolia</i>

Timetable

Concept Clearance	21 Dec 2012
Fact Finding	25 Oct 2012 to 26 Oct 2012

MRM	20 Dec 2012
Approval	26 Nov 2013
Last Review Mission	-
Last PDS Update	24 Apr 2017

Loan 3072-MON

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
26 Nov 2013	14 Mar 2014	14 Aug 2015	30 Jun 2017	31 Dec 2019	-

Financing Plan		Loan Utilization			
	Total (Amount in US\$ million)	Date	ADB	Others	Net Percentage
Project Cost	22.50	Cumulative Contract Awards			
ADB	20.00	26 Nov 2013	1.35	0.00	7%
Counterpart	2.50	Cumulative Disbursements			
Cofinancing	0.00	26 Nov 2013	0.63	0.00	3%

Project Page	https://www.adb.org/projects/46312-001/main
Request for Information	http://www.adb.org/forms/request-information-form?subject=46312-001
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