

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Foci and Key Activities

1. The major intervention to date by an international development partner in Mongolia's payment system was the payment systems modernization component of the World Bank's Financial Capacity Development Project, completed in 2009. The current payment system was built under this project. With the World Bank's assistance, the Bank of Mongolia (BOM) established a system infrastructure for interbank payments and retail payments. The former covers the real-time gross settlement system for high-value transactions and the low-value payments system for low-value transactions. The retail payment infrastructure is based on the financial transfer system acquired by the BOM and covers electronic fund transfer at point of sale and ATM switching. It can also support card and merchant management and Europay, MasterCard and Visa and hybrid cards.

2. The World Bank continues to be engaged in the sector indirectly through its ongoing Information and Communications Infrastructure Development Project, which began in 2006. The project has three interrelated components. The first component supports private sector-led development of the information and communications infrastructure in rural Mongolia to accelerate the provision of voice telephony and internet services there. The second component provides investment support and technical assistance to the sector regulator, while the third component seeks to build information and communication technology policy leadership in Mongolia. It is also helping fill gaps in the enabling environment to allow the use of public-private partnerships (PPPs) for provision of e-government services. Under this scheme, which the World Bank is helping set up, public key infrastructure to support implementation of an e-signature law is being carried out. The technical assistance was completed in March 2013.

3. From 2010–2012, the International Finance Corporation (IFC) recently provided consultancy services to help Mobifinance, a nonbank financial institution providing mobile payments and affiliated with mobile network operator Mobicom, make decisions about the technology it is using for its mobile financial services. This is intended to ensure that Mobifinance has a viable business and technical solution for managing agent liquidity and settling accounts between banks.

4. Indicative financing under the World Bank's country partnership strategy for 2013–2017 includes the Small and Medium Enterprise Access to Finance Project for fiscal year 2014 and the Trust Fund Financial Sector Reform and Strengthening Initiative: Improving Financial Sector Stability by supporting Mongolia's entity-level implementation of internationally recognized financial reporting standards and internal .

5. The ADB is currently implementing the Transformational Mobile Banking Services policy and advisory technical assistance project which aims to develop an informed and effective regulatory environment to foster expansion, competition, and innovation in mobile phone-based banking services for those lacking adequate banking access in Mongolia.¹

¹ ADB. 2009. *Technical Assistance to Mongolia for Transformational Mobile Banking Services*. Manila (TA 7479-MON: \$400,000, approved on 18 December 2009)

Major Development Partners

| Development Partner | Project Name | Duration | Amount (\$ million) |
|--|--|-----------|---------------------|
| Banking Systems | | | |
| Central Banks and Payment Systems | | | |
| ADB | Policy and Institutional Support for Banking Sector Systemic Risk Management | 2009–2014 | 2.00 |
| | Transformation Mobile Banking Services | 2009–2013 | 0.45 |
| | Establishing an Effective Anti-Money Laundering Regime | 2004–2007 | 0.50 |
| World Bank | Financial Capacity Development Project | 2002–2009 | 5.50 |

Sources: ADB and Bank of Mongolia.

B. Institutional Arrangements and Processes for Development Coordination

6. The BOM will lead regular coordination efforts to ensure that the Payment System Modernization Project is aligned with relevant policies and strategies and that the development partners are kept well-informed. The National Payments' Council, which is headed by the deputy governor of the BOM and includes representatives of all commercial banks and relevant government agencies, has a role in overall coordination and policy making in the area of payments. A steering committee will be set up for the project to coordinate implementation, ensure smooth coordination between different agencies and stakeholders, and provide guidance to support timely completion.

7. Even though a formal partnership on the project has not been institutionalized, a major development partner, the International Finance Corporation of the World Bank Group, has indicated its interest to join efforts in this area. The International Finance Corporation may provide support in the form of technical expertise and public awareness raising during implementation.

C. Achievements and Issues

8. Although the current payments system built with support from the World Bank project was considered a successful intervention, BOM recognized even at project completion in 2009 that the system would need further development to address technical limitations and to meet market requirements and policy issues as they evolved. Moreover, when the BOM launched the current system, it was operating with minimum hardware and network capacity and using technically limited packaged software and solutions provided in a short time frame with very limited resources.

D. Summary and Recommendations

9. The involvement of Mongolia's development partners in the payment system is limited. So far, the system has been upgraded by only one major intervention. Succeeding projects by development partners should aim to development e-commerce, online payments, internet third party payment services, general purpose smart cards, government electronic payments, and contactless payments infrastructure.