



Technical Assistance Report

Project Number: 51415-001
Knowledge and Support Technical Assistance (KSTA)
November 2020

Mongolia: Strengthening Banking Sector Stability and Performance

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 26 October 2020)

Currency unit	–	togrog (MNT)
MNT1.00	=	\$0.00035
\$1.00	=	MNT2,831.67

ABBREVIATIONS

ADB	–	Asian Development Bank
BOM	–	Bank of Mongolia
BRPD	–	Banking Resolution and Policy Department
COVID-19	–	coronavirus disease
IFRS	–	International Financial Reporting Standard
MBA	–	Mongolian Bankers Association
NPL	–	nonperforming loan
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance

NOTE

In this report, “\$” refers to United States dollars.

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KNOWLEDGE AND SUPPORT TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 51415-001	
Project Name	Strengthening Banking Sector Stability and Performance	Department/Division	EARD/EAPF
Nature of Activity Modality	Capacity Development Regular	Executing Agency	Bank of Mongolia (Central Bank)
Country	Mongolia		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Finance	Finance sector development		0.75
		Total	0.75
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		GHG Reductions (tons per annum)	0
✓ Strengthening governance and institutional capacity		Climate Change impact on the Project	Low
		ADB Financing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
		Cofinancing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 8.10		No gender elements (NGE)	✓
		Poverty Targeting	
		Geographic Targeting	✓
4. Risk Categorization	Low		
5. Safeguard Categorization	Safeguard Policy Statement does not apply		
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		0.75	
Knowledge and Support technical assistance: Technical Assistance Special Fund		0.75	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		0.75	
Currency of ADB Financing: US Dollar			

I. INTRODUCTION

1. The knowledge and support technical assistance (TA) will support the Bank of Mongolia (BOM) in implementing medium-term banking sector strengthening reforms.¹ The TA will focus on (i) upgrading bank ownership and accountability frameworks, (ii) improving reporting and regulation of bank assets, and (iii) promoting new financial products and business models. The TA is an integral part of Asian Development Bank (ADB) support for finance sector stability, and the continued development of BOM's prudential capacity under pillar 1 of the country partnership strategy, 2017–2020.² The TA is included in the country operations and business plan, 2021.³

II. ISSUES

2. Following economic liberalization in the 1990s, Mongolia has experienced rapid financial deepening centered on its banking system and achieved substantial progress in the household access to financial services.⁴ However, the stability of the banking sector, which constitutes more than 90% of the country's finance sector, continues to be affected by the high-level of nonperforming loans (NPLs), inadequate capital, and weak governance. The officially reported NPL ratio increased from 7.4% in January 2018 to 10.7% in June 2020. The coronavirus disease (COVID-19) pandemic has added to the banking sector's challenges: past-due loans grew 35% from December 2019 to April 2020.⁵ Based on the asset quality review done in 2017, about 2% of gross domestic product was needed to recapitalize several banks.⁶ On 23 October 2020 the Financial Action Task Force took Mongolia off the list of countries with strategic deficiencies.⁷ Bank lending to small and medium-sized enterprises (SMEs) is low, and access to credit is a major obstacle to doing business in Mongolia.

3. Commercial banks in Mongolia operate as limited liability companies whose ownership is highly concentrated in a small number of influential shareholders.⁸ There were instances when decisions on transferring bank ownership or mergers were done without properly informing small shareholders. Undisclosed beneficial ownership of some banks by government and elected officials creates conflicts of interest, impairing supervisory oversight. Controlling interests in banks shareholdings are not regulated or vetted. Unlike listed joint stock companies, the limited liability

¹ BOM. 2020. *Banking Sector Reform Program for 2020–2023* (Decree of the Governor of the Bank of Mongolia no. A-366 dated 14 September 2020) Ulaanbaatar. The program has five objectives: (i) improve the legal environment to reduce shareholder concentration and enhance good governance of the sector; (ii) enhance sector regulations and supervisions in line with international best practices; (iii) continue collaboration with international professional institutions to strengthen the sector; (iv) improve the effectiveness of anti-money laundering and combating the financing of terrorism systems, get out of the Financial Action Task Force's grey list, and prepare for the next joint assessments; and (v) promote digital banking and specialized banking services. BOM must report on the program's implementation to the Economic Standing Committee of the Parliament on the first quarter of each year.

² ADB. 2017. [Country Partnership Strategy: Mongolia, 2017–2020—Sustaining Inclusive Growth in a Period of Economic Difficulty](#). Manila.

³ ADB. 2020. [Country Operations Business Plan: Mongolia, 2021](#). Manila. The TA first appeared in the business opportunities section of ADB's website on 30 September 2020.

⁴ M. Helble, H. Hill, and D. Magee, eds. 2020. [Mongolia's Economic Prospects: Resource-Rich and Landlocked Between Two Giants](#). Manila: ADB.

⁵ Mongolian Bankers Association (MBA). *Banking Sector Review: Covid-19 Economic and Financial Look, Quarter 1, 2020*. Ulaanbaatar.

⁶ The asset quality review was done under the International Monetary Fund's Extended Fund Facility Program approved in May 2017 and closed (uncompleted) in May 2020. Inappropriate post-review equity injections and regulatory forbearance led to unclarity about selected banks' compliance with prudential capital adequacy ratios.

⁷ The Financial Action Task Force put Mongolia on the list of countries with strategic deficiencies in anti-money laundering and counter-terrorism financing in October 2019.

⁸ Banks running as limited liability companies with high shareholder concentration tend to engage in riskier operations and have higher levels of impaired assets.

company form allows the banks to have less robust and accountable corporate governance and avoid public disclosure of information. Existing regulations do not clearly support the public listing of bank shares on the stock exchange. Inadequate banking sector corporate restructuring regulations, including on mergers and acquisitions, constrain the potential for bank capital augmentation.

4. The financial reporting in the banking sector lags international standards and risk management remains uneven. Although BOM has been strengthening macro-prudential measures and related-party disclosure transparency, other banking sector reforms have progressed slowly. For example, implementation of the International Financial Reporting Standard 9 (IFRS 9) was postponed from January to December 2020.⁹ Bank systems and capacity need stronger asset classification and provisioning, collateral valuation, NPL management, and loan origination and risk management, especially in small banks with one dominant owner. In addition, widespread nonconformance with international capital adequacy and banking supervision standards impair banks' capacity to sustain shocks. BOM's supervisory capacity is still evolving, including in effective oversight over commercial banks' NPLs.¹⁰ There is little investor interest in recapitalizing banks because of concerns over solvency, low profitability, weak governance, and lack of transparency on the banks' condition.

5. The government has a financial market development program until 2025, but coordination of the finance sector development is fragmented.¹¹ BOM, the Financial Regulatory Commission, the Ministry of Finance, and the Development Bank of Mongolia are primarily guided by their own strategies and programs. The lack of a genuine whole-of-sector development plan contributed to the dearth of digital financial instruments and business models in the banking sector and the lack of a supervisory framework for financial technology (fintech).¹² This is despite the significant potential to address the inherent issues with inadequate credit history and collateral under conventional bank lending to the private sector, particularly to microbusinesses and SMEs. Given Mongolia's dispersed population distribution, it is important to step up the development of digital financial services and business models in the banking sector to ease access to finance by businesses while preserving sector stability.

6. In June 2020, the Governor of BOM established the Banking Restructuring and Policy Department (BRPD) to, among other tasks, improve the policies and regulations on bank ownership and public listing, financial reporting and risk management, and new bank products and business models. The TA will help strengthen the capacity and policies of BOM, in general, and BRPD, in particular, to be ready to implement measures in the priority areas of the Banking Sector Reform Program (footnote 1). The TA is an integral part of ADB's comprehensive and sustained support for finance sector development in Mongolia. The TA will enable continued support for the implementation of the 2017–2020 medium-term reform framework of the ADB-supported Banking Sector Rehabilitation and Financial Stability Strengthening Program and help

⁹ IFRS. [IFRS 9 Financial Instruments](#). IFRS 9 addresses the accounting for financial instruments and contains three main topics: classification and measurement of financial instruments, impairment of financial assets and hedge accounting. The standard came into force on 1 January 2018 and requires a recognition of credit loss allowances on initial recognition of financial assets, not when a credit loss event has occurred.

¹⁰ There are no frameworks for resolving the high level of NPLs and bank recapitalization. The 22 June 2018 Banking Sector Stability Law that enables recapitalization of commercial banks with public funds has yet to be operationalized. The regulatory forbearance has resulted in banks rescheduling past due loans and NPLs leniently.

¹¹ Government of Mongolia. 2017. *The Reform and Development Program of Financial Market Until 2025*. Ulaanbaatar. The ambitious program has two phases: 2018–2020, and 2021–2025.

¹² World Bank. 2020. [Promoting Digital and Innovative SME Financing](#). Washington, DC. p. viii. The World Bank defines fintech as “technology-enabled innovations in financial services that could result in new business models, applications, processes, or products with an associated material effect on the provision of financial services.”

complete its agenda on NPLs and bank capitalization. The TA follows the recommendation in the program's completion report that ADB should expand and deepen support to the finance sector and that future finance sector operations should focus on the banking sector reforms.¹³

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

7. The TA is aligned with the following impact: investor confidence in Mongolia's banking sector increased and financial intermediation expanded.¹⁴ The TA will have the following outcome: regulation and management for promoting governance, stability, and development of the banking sector improved.¹⁵

B. Outputs, Methods, and Activities

8. **Output 1: Policy advice on regulatory frameworks on bank ownership and accountability finalized.** This output will support (i) assessing BOM's rules and supervision of banks' significant and ultimate ownership (held directly, indirectly and by related parties);¹⁶ (ii) preparing regulations on bank mergers and acquisitions,¹⁷ maximum investments, approval of significant shareholders, the rights of minority shareholders, and control changes; (iii) designing bank ownership prudential conditions and criteria; (iv) strengthening the regulation and supervision of bank transparency and information disclosure, and bank corporate affiliations or structures to mitigate undue exposure risks for the banks; and (v) raising BOM's capacity to identify and address the concerns on bank ownership, control, and mergers and acquisitions. This output will also support assessing legal, regulatory, accounting, taxation, market capacity, and investor depth issues; proposing options; and preparing a roadmap on banks' public listing.¹⁸ An important precondition for implementing this output will be the adoption of the amendments to the Banking Law (2010) as the proposed amendments will provide the legal basis for reducing bank ownership concentration and enabling the public listing of banks.¹⁹

9. **Output 2: Guidelines on reporting and regulation of banks' assets updated.** This output will help (i) assess financial instrument accounting systems of selected commercial banks against IFRS 9; (ii) analyze the impact of IFRS 9 on banking sector prudential ratios and develop a transition plan for BOM; (iii) update the accounting guidelines to be in line with IFRS 9 and test them in selected banks; and (iv) build the IFRS 9 capacity of the staff of BOM, commercial banks, concerned government agencies, and professional organizations. To mitigate building up of NPLs, this output will also support knowledge sharing and strengthening of the capacity of the banks,

¹³ ADB. 2020. [Completion Report: Banking Sector Rehabilitation and Financial Stability Strengthening Program in Mongolia](#). Manila.

¹⁴ Parliament of Mongolia. 2020. *Medium-Term Banking Sector Strengthening Program for 2020–2023*. Ulaanbaatar. Resolution of the Economic Standing Committee no. 03 dated 29 January 2020.

¹⁵ The design and monitoring framework is in Appendix 1. All outputs will include workshops and roundtable discussions to solicit stakeholder views on the TA topics.

¹⁶ Including compliance with the Basel Committee on Banking Supervision Core Principles for effective banking supervision, particularly principles 6 and 7 on the transfer of significant ownership and major acquisitions.

¹⁷ This will include strengthening supervisory, legal, corporate structure, taxation, and accounting elements to support mergers and acquisitions.

¹⁸ The BOM will establish a working group to lead the work on banks' public listing. The working group is expected to include BOM, Finance Regulatory Commission, and the Mongolian Stock Exchange. The TA will seek to promote mainstreaming green principles in the public listing of banks.

¹⁹ Parliament of Mongolia. [Draft Law on Amendments to the Banking Law](#). Amendments to the Banking Law were submitted for the Parliament's consideration on 20 August 2020.

BOM, and the Mongolian Bankers Association (MBA) in risk management and handling NPLs upon elimination of regulatory forbearance and implementation of IFRS 9.

10. **Output 3: Digital financial products and business models promoted.** This output will support (i) conducting a midterm assessment of the government’s financial market reform and development program and recommendations for 2021–2025;²⁰ (ii) strengthening regulations to promote new digital financial products and financial models that would ease access of micro, small, and medium-sized enterprises to finance beyond traditional banking models (e.g., digital infrastructure for digital financial services, digital contracts, e-signature, e-know-your-client, digital banking, and credit scoring based on big data analytics); (iii) improving linkages between digital financing and e-commerce; and (iv) sharing knowledge from the international success stories in fintech and digital banking.²¹

C. Cost and Financing

11. The TA is estimated to cost \$800,000, of which \$750,000 will be financed on a grant basis by ADB’s Technical Assistance Special Fund (TASF 6). The key expenditure items are listed in Appendix 2.

D. Implementation Arrangements

12. ADB will administer the TA. BOM, through BRPD, will be the executing agency. The implementation arrangements are summarized in the table.

Implementation Arrangements

Aspects	Arrangements		
Indicative implementation period	1 January 2021–30 June 2023 ^a		
Executing agency	BOM through BRPD. BRPD will assign one primary and one back-up senior level staff from its Policy Division to support the project, including in providing information, facilitating meetings with government staff, helping organize discussions and workshops, and coordinating inputs and comments to the consultants’ deliverables.		
Interagency working group	BOM will establish an interagency working group chaired by BRPD and comprising the director general or director of (i) BOM’s Supervisory Department, and Legal Department, (ii) MOF’s FPD, (iii) FRC’s ICD, ^b and (iv) MSE’s Operations Department. The working group will meet at least every 6 months to review the TA status and will report to BOM management on the status of TA implementation and other matters related to the TA. ADB’s TA project officer or the Mongolia Resident Mission-based project team member may join the meetings upon request.		
Consultants	To be selected and engaged by ADB		
	Firm: quality- and cost-based selection (80:20)	Banking reform advisory and capacity building consultant ^c	\$700,000
	Individual consultant selection	E-commerce, digital finance, new business models experts	\$20,000

²⁰ Work on this item will build on the Bond Market Guide on Mongolia completed by ADB’s Economic Research and Regional Cooperation Department in March 2020 and on the road map for corporate bond market development developed under phase 2 of the Japan International Cooperation Agency’s Capacity Building of Capital Market in Mongolia Project. It will be coordinated with the capital market diagnostic and roadmap development for Mongolia under ADB’s proposed regional TA on Capital Market Development and Reform in Developing Asia (Phase 1). Strategic assessment of the potential for introducing open banking in Mongolia will be also conducted.

²¹ For example, the experience of the Ant Financial Services Group and WeChat Pay in digital banking and payments.

Disbursement	Disbursement of TA resources will follow ADB's <i>Technical Assistance Disbursement Handbook (2020, as amended from time to time)</i> .
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ADB = Asian Development Bank, BOM = Bank of Mongolia, BRPD = Banking Restructuring And Policy Department, COVID-19 = coronavirus disease, FPD = Financial Policy Department, FRC = Financial Regulatory Commission, ICD = International Cooperation Department, MOF = Ministry of Finance, MSE = Mongolian Stock Exchange, TA = technical assistance.

- ^a The implementation period considers the uncertainty caused by the COVID-19 pandemic and the associated travel and gathering restrictions. If the restrictions are lifted or become flexible enough to enable faster implementation of the TA, then the TA may be completed earlier than anticipated.
 - ^b Depending on need, FRC's Securities Department, Nonbank Financial Institutions Department, and Market Research and Development Department will be co-opted to the meetings of the interagency working group.
 - ^c Given the international travel uncertainty because of the COVID-19 pandemic, the consultant's presence in Mongolia and ability to deliver the required capacity building in the country will be a strong merit. The TA consultants and other relevant parties may be required to sign a non-disclosure agreement with BOM.
- Source: Asian Development Bank.

13. **Consulting services.** ADB will recruit a consulting firm (association of firms) to deliver the activities under the TA.²² The firm, which will be engaged through quality- and cost-based selection under a partial lump-sum contract using performance (output)-based terms of reference, will comprise international (15 person-months) and national experts (24 person-months) on (i) banking (ownership, control, mergers and acquisitions, asset-liability management); (ii) legal aspects of banking (corporate governance, legal form, public listing, fintech); (iii) financial management (bank accounting); (iv) finance sector development (banks, non-banks, capital market); and (v) fintech. The TA will also engage experts renowned in e-commerce, digital finance, and new business models to facilitate knowledge transfers from the regional countries' successful experiences. ADB will engage the consultants following the ADB Procurement Policy (2017, as amended from time to time) and its associated procurement instructions.

14. **Coordination with banking industry.** BOM will seek to arrange the use of MBA's sub-groups on legal issues, risk management, and digital products as platforms for consultations with the banking sector and development partners for the TA's outputs. Upon establishment of such an arrangement, the consulting firm will use the concerned MBA sub-group to seek inputs to and comments on the deliverables, and to disseminate the final products.²³ During the TA semiannual review missions, ADB will evaluate the TA progress based on the performance targets and indicators in the design and monitoring framework and will organize coordination meetings with the development partners.

IV. THE PRESIDENT'S DECISION

15. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$750,000 on a grant basis to the Government of Mongolia for Strengthening Banking Sector Stability and Performance, and hereby reports this action to the Board.

²² Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 3).

²³ BOM will also seek to arrange with MBA to provide, at no cost to the TA, coordinators to each TA output, and facilities for the consultation events.

DESIGN AND MONITORING FRAMEWORK

Impact the TA is Aligned with investor confidence in Mongolia's banking sector increased and financial intermediation expanded (Mongolia's Medium-Term Banking Sector Strengthening Program for 2020–2023) ^a			
Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
<p>Outcome</p> <p>Regulation and management for promoting governance, stability, and development of the banking sector improved</p>	<p>By 2024</p> <p>a. Road map for the listing of banks on the stock exchange adopted for implementation (2020 baseline: not applicable) (OP 6.1.2)</p> <p>b. Plan for development and supervision of fintech and digital banking solutions adopted by BOM for implementation (2020 baseline: not applicable) (OP 6.1.2)</p>	<p>a. BOM and Mongolian Stock Exchange annual reports and websites</p> <p>b. BOM annual reports and websites</p>	<p>R: Slowdown in banking sector reform because of financial or economic crisis, vested interest, or shifting commitments to adopt required legislation</p> <p>R: Lack of progress in ascertaining the financial position of banks and addressing the NPL issue</p>
<p>Outputs</p> <p>1. Policy advice on regulatory frameworks on bank ownership and accountability finalized</p> <p>2. Guidelines on reporting and regulation of banks' assets updated</p>	<p>By June 2023</p> <p>1a. Guidance on supervision of banks' ownership and control prepared (2020 baseline: not prepared) (OP 6.1.2)</p> <p>1b. Draft regulation on banks' significant ownership and changes and control submitted to BOM Board (2020 baseline: not prepared) (OP 6.1.2)</p> <p>1c. Assessment of legal and regulatory constraints for the public listing of banks submitted to BOM (2020 baseline: no assessment) (OP 6.1.2)</p> <p>2a. Updated bank accounting guidelines in line with IFRS 9^b submitted for BOM approval (2020 baseline: not prepared) (OP 6.1.2)</p> <p>2b. About 50 participants (at least 20 women) from BOM and the banking sector trained on IFRS 9 and attended knowledge sharing</p>	<p>1a. ADB TA consultants' reports</p> <p>1b. ADB TA consultants' reports, ADB TA review mission's aide-mémoire</p> <p>1c. ADB TA consultants' reports, ADB TA review mission's aide-mémoire, working group's reports</p> <p>2a. ADB TA consultants' reports, BOM website</p> <p>2b. Workshop attendance reports, post-event feedback questionnaires from participants</p>	<p>R: High staff turnover and little support from the bank management and owners</p> <p>R: High staff turnover and little support from the management and staff</p>

<p>3. Digital financial products and business models promoted</p>	<p>events on risk management and NPL resolution (2020 baseline: 0) (OP 6.1.1)</p> <p>3a. Mid-term review of the government's 2018–2025 financial market development program conducted, and recommendations on mainstreaming new financial instruments and business models prepared (2020 baseline: not prepared) (OP 1.2.1)</p> <p>3b. Operational requirements for banks on fintech and digital banking solutions submitted to BOM (2020 baseline: not prepared) (OP 1.2.1)</p> <p>3c. At least two proposals on digital financing products that expand SME financing, including digital payment, and strengthen linkages with e-commerce submitted to BOM (2020 baseline: 0) (OP 1.2.2)</p> <p>3d. At least one pilot on innovative digital payment and e-commerce identified (2020 baseline: 0) (OP 1.2.2)</p> <p>3e. About 40 participants (at least 10 women) from BOM and the banking sector attended knowledge sharing events and reported enhanced knowledge on digital financial products and business models and on e-commerce from the region (2020 baseline: 0) (OP 6.1.1)</p>	<p>3a. ADB TA consultants' reports, ADB TA review missions' aide-mémoire</p> <p>3b. BOM website, ADB TA consultants' reports, ADB TA review missions' aide-mémoire</p> <p>3c. ADB TA consultants' reports, ADB TA review missions' aide-mémoire</p> <p>3d. ADB TA consultants' reports, ADB TA review missions' aide-mémoire</p> <p>3e. Workshop attendance reports, post-event feedback questionnaires from participants</p>	<p>R: Reduced cooperation among the government agencies involved in the financial sector development</p> <p>R: Insufficiency of the infrastructure and enabling tools and channels as the backbone for the digital finance and business models</p> <p>R: Diminished interest or availability of regional peers for best practice or experience knowledge sharing</p>
<p>Key Activities with Milestones</p> <p>1. Policy advice on regulatory frameworks on bank ownership and accountability finalized</p> <p>1.1 Establish working group for the public listing of banks by December 2020</p> <p>1.2 Recruit and field consultants by April 2021</p> <p>1.3 Conduct an inception workshop with BOM, government officials, the banking sector, and MBA by May 2021</p> <p>1.4 Hold public listing training for BOM, MSE, MOF, other government stakeholders, and MBA by June 2021</p> <p>1.5 Hold a study tour to a good-case country on ownership concentration and bank public listing, and conduct an in-country knowledge sharing roundtable by August 2021</p>			

- 1.6 Assess constraints and develop recommendations for the public listing of banks, by October 2020
- 1.7 Organize a roundtable to discuss proposed reforms and regulations for reducing ownership concentration and enabling public listing by November 2021
- 1.8 Prepare an interim report with draft regulations on reducing ownership concentration and enabling bank public listing, by June 2022
- 1.9 Prepare a draft final report by March 2023
- 1.10 Prepare a final report by June 2023

2. Guidelines on reporting and regulation of banks' assets updated

- 2.1 Recruit and field consultants by April 2021
- 2.2 Conduct an inception workshop with BOM, government officials, the banking sector, and MBA to discuss the issues in IFRS 9 and NPL resolution by May 2021
- 2.3 Review bank accounting guidelines against IFRS 9 and other IFRS updates, and draft IFRS 9-based bank accounting guidelines by August 2021^c
- 2.4 Test the draft IFRS9-based bank accounting guidelines at selected commercial banks, review the lessons, and develop final IFRS 9-based bank accounting guidelines by December 2021
- 2.5 Analyze the impact of IFRS 9 and other standard updates on banking sector indicators including prudential ratios; provide a transition strategy for BOM on IFRS 9 implementation; and, based on the strategy, specify the prerequisites for IT and software applied by banks to adopt and implement IFRS 9 by December 2021
- 2.6 Conduct training programs and workshops for BOM, commercial banks, concerned government agencies, and professional organizations during drafting and before finalizing the IFRS 9-based bank accounting guidelines (September–December 2021)
- 2.7 Conduct knowledge sharing roundtables on the latest practices and developments in (i) credit risk and NPL management systems at selected banks, and (ii) BOM's supervision and regulation of credit risk and NPLs during June–December 2021
- 2.8 Organize a national workshop on the progress in (i) the use of IFRS 9 at banks and BOM's supervision of the banking sector, and (ii) the resolution of NPLs by May 2022
- 2.9 Prepare an interim report with draft regulations on improving the effectiveness of credit risk and NPL management and supervision by June 2022
- 2.10 Prepare a draft final report by March 2023
- 2.11 Prepare a final report by June 2023

3. Digital financial products and business models promoted

- 3.1 Recruit and field consultants by April 2021
- 3.2 Conduct an inception workshop with BOM, FRC, MOF, the banking sector, and MBA by May 2021
- 3.3 Conduct a mid-term review of the financial markets development program and development policy reform recommendations for 2021–2025 by June 2021
- 3.4 Review and develop recommendations on mainstreaming fintech and digital solutions in the banking sector and ensuring adequate supervision of fintech and digital solutions by July 2021
- 3.5 Hold a study tour^d to a good-case country on digital financial products and business models, and conduct an in-country knowledge sharing roundtable by September 2021
- 3.6 Organize a national workshop on the proposed agenda for the 2021–2025 phase of the financial market development program and on mainstreaming fintech and digital solutions in the banking sector by November 2021
- 3.7 Develop proposals on digital financing products for SME finance in collaboration with commercial banks and other relevant players by March 2022
- 3.8 Establish cooperation with major regional digital financing and e-commerce players, including through study tours, workshops, and business fairs by December 2022
- 3.9 Prepare a draft final report by March 2023
- 3.10 Prepare a final report by June 2023

TA Management Activities:

- Establish interagency working group to oversee TA implementation by December 2020
- Conclude arrangement with MBA on the consultation platform for the TA by January 2021
- Post request for expressions of interest by consultants by December 2020

- Sign contract with the TA consultant by April 2021

Inputs

ADB: \$750,000 Technical Assistance Special Fund (TASF 6)

Note: The government will provide counterpart support in the form of counterpart staff, access to data and printed documents, facilities for key meetings, printing and distribution of project material to staff, assistance in coordinating meetings, and other in-kind contributions.

ADB = Asian Development Bank, BOM = Bank of Mongolia, fintech = financial technology, FRC = Financial Regulatory Commission, IFRS = International Financial Reporting Standard, IT = information technology, MBA = Mongolian Banker Association, MOF = Ministry of Finance, MSE = Mongolian Stock Exchange, NPL = nonperforming loan, OP = operational priority, R = risk, SMEs = small and medium-sized enterprises, TA = technical assistance.

^a Parliament of Mongolia. 2020. *Medium-Term Banking Sector Strengthening Program for 2020–2023*. Ulaanbaatar. Resolution of the Economic Standing Committee no. 3 dated 29 January 2020.

^b IFRS 9 is a standard on bank accounting for financial instruments.

^c As part of drafting the guidelines, the estimation and validation procedures and minimum requirements for credit risk parameters (e.g., probability of default, loss given default, exposure at default, loss identification period) used for banks' credit impairment models should be delineated.

^d The study tour will be conducted only in an ADB member country.

Contribution to Strategy 2030 Operational Priorities:

The expected values and methodological details for all OP indicators to which this TA will contribute results are detailed in Contribution to Strategy 2030 Operational Priorities (accessible from the list of linked documents in Appendix 3 of the TA report).

OP 1.2.1 Business development and financial sector measures supported in implementation (number)

OP 1.2.2 Models for business development and financing established or improved (number)

OP 6.1.1 Government officials with increased capacity to design, implement, monitor, and evaluate relevant measures (number)

OP 6.1.2 Measures supported in implementation to improve capacity of public organizations to promote the private sector and finance sector (number)

Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	390.0
ii. National consultants	220.0
b. Out-of-pocket expenditures	
i. International and local travel	80.0
ii. Training, seminars, and conferences ^b	10.0
iii. Reports and communications	10.0
iv. Miscellaneous administration and support costs ^c	10.0
2. Training, seminars, workshops, forum, and conferences	
a. Miscellaneous administration and support costs ^d	10.0
3. Contingencies	20.0
Total	750.0

Note: The technical assistance (TA) is estimated to cost \$800,000, of which contributions from the Asian Development Bank are presented in the table. The government will provide counterpart support in the form of counterpart staff, office accommodation and supplies, secretarial assistance, venues for activities, information and communication facilities for consultants, and other in-kind contributions. The value of the government contribution is estimated to account for 6.25% of the total TA cost.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF 6).

^b Includes (i) tea, coffee, and water costs of all workshop, training, and conference participants; (ii) venue rental and interpretation during the workshops and training sessions; (iii) hosting costs for the online training platform for webinars; (iv) stationery for participants; (v) printing of materials; and (vi) other administrative support costs. Contracting of services will be subject to the Asian Development Bank's prior approval.

^c Includes the cost of translating consultants' outputs and providing local transportation for the consultant team during the assignment.

^d Includes the cost of preparing communications and reports, interpreting, translating, and editing TA-related documents other than the consultants' deliverables.

Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=51415-001-TARreport>

1. Terms of Reference for Consultants
2. Contribution to Strategy 2030 Operational Priorities