

**ASIAN DEVELOPMENT BANK**

**TAR: MON 38060**

**TECHNICAL ASSISTANCE**  
(Cofinanced by the Government of Spain)

**TO**

**MONGOLIA**

**FOR**

**ESTABLISHING AN EFFECTIVE ANTI-MONEY LAUNDERING REGIME**

**September 2004**

## CURRENCY EQUIVALENTS

(as of 20 August 2004)

Currency Unit	–	togrog (MNT)
\$1.00	=	MNT1,188.0
MNT1.00	=	\$0.0008

## ABBREVIATIONS

ADB	–	Asian Development Bank
AML	–	Anti-Money Laundering
BOM	–	Bank of Mongolia
FATF	–	Financial Action Task Force on Money Laundering
ITC	–	information technology and communication
MOFE	–	Ministry of Finance and Economy
MOJHA	–	Ministry of Justice and Home Affairs
MSEC	–	Mongolian Securities and Exchange Commission
TA	–	technical assistance

## TA CLASSIFICATION

<b>Poverty Classification</b>	–	Others
<b>Sector</b>	–	Finance
<b>Subsector</b>	–	Banking systems
<b>Themes</b>	–	Sustainable economic growth, Governance, and Private sector development
<b>Subtheme</b>	–	Promoting economic efficiency and enabling markets, Financial and Economic Governance, and Policy/institutional/legal/regulatory reforms

## NOTE

In this report, "\$" refers to US dollars.

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## I. INTRODUCTION

1. The Government of Mongolia (the Government) has requested technical assistance (TA) from the Asian Development Bank (ADB) to support the establishment of an effective anti-money-laundering regime.<sup>1</sup> A mission visited Mongolia from 19 to 23 January 2004 to discuss with the Ministry of Finance and Economy (MOFE), Bank of Mongolia (BOM), Ministry of Justice and Home Affairs, and Mongolian Securities and Exchange Commission. The mission reached an understanding with the Government on the objective, scope, cost estimates, terms of reference, and implementation arrangements for the TA.

## II. ISSUES

2. **Background.** Financial sector reforms have been a priority for the Government for more than a decade. During the first half of the 1990s, banking activities were liberalized, bank regulations strengthened, and the financial status of nonviable banks improved. More recently, the focus of reforms has shifted to strengthening corporate governance in commercial banks, developing an interbank money market, and establishing the legal and regulatory framework for nonbank financial institutions. Consequently, the level of financial intermediation has increased, and the basic platform for the development of nonbank financial institutions is being put into place.

3. Along with financial stabilization and economic growth, are a new series of issues and challenges. Mongolia has experienced a rapidly growing inflow of funds into the country. This inflow causes concern. As the source of funds is not well traced or tracked, the lack of transparency and information leads to gaps in the financial system through which illegal funds could flow. To ensure financial stability, investor confidence, and orderly growth of the financial system, Mongolia must establish an effective anti-money-laundering (AML) regime.

4. **Past Government Initiatives.** As a first step toward a healthy financial system, the National Security Council adopted a resolution on 12 September 2001 instructing the Government and its agencies to cooperate with international organizations to develop the legal framework relevant to facilitate anti-money-laundering activities. The resolution was reinforced by a presidential decree supporting international anti-terrorist coalitions and the adoption on 10 October 2001 of a full government resolution that instructed MOFE to cooperate with international organizations to combat terrorist financing and money laundering activities. Furthermore, the Government has signed the International Convention for the Suppression of the Financing of Terrorism and instructed relevant ministries to exchange information on activities that might be linked to drug trafficking or money laundering.

5. Subsequently, a draft AML legislation was prepared with assistance from the International Monetary Fund. It is expected to be passed during the Parliament session beginning in September 2004. The legislation was drafted following recommendations of the Financial Action Task Force on Money Laundering and reflects substantial compliance with international standards from the perspective of an effective legal framework. The United States Department of Treasury is also proposing a financial crimes advisory assistance project to provide the Government with information on AML regulations and investigative procedures and techniques, as well as short-term training in these areas.

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<sup>1</sup> The TA first appeared in *ADB Business Opportunities* (Internet Edition) on 5 March 2004.

6. Once the AML legislation is passed, appropriate institutional arrangement will have to be established and institutional capacity built to effectively implement the law. Establishing an AML regime in Mongolia will require the preparation of implementing rules and regulations for AML legislation, establishment of a monitoring system for suspicious activities, and capacity building of key institutions responsible for the operation of the AML regime.

### **III. THE TECHNICAL ASSISTANCE**

#### **A. Purpose and Output**

7. The goal of the TA is to promote the stability and soundness of the financial system in Mongolia by assisting in the creation of an effective AML regime. In turn, the AML regime will also reduce the country's vulnerability to criminal activities and help Mongolia comply with international standards for AML. The TA has been designed taking into account the activities of the International Monetary Fund and United States Department of Treasury, to avoid duplication of effort and to ensure effectiveness and complementarity. The outcome of the TA will be part of a reform program to be supported under the proposed nonbanking financial sector program loan scheduled for 2005.

8. With the AML legislation in place, the TA aims to (i) draft the implementing rules and regulations of the law, (ii) establish an effective suspicious transaction monitoring system, and (iii) transfer knowledge and build capacity for key institutions to establish an effective AML regime.

9. The major outputs expected from the TA are

- (i) a time-bound plan with milestones for implementing an effective AML regime that will also provide a common reference for what needs to be done and when,
- (ii) a blueprint detailing the design and requirements for a system to monitor suspicious transactions,
- (iii) establishment of a financial intelligence unit and provision of a comprehensive draft for key responsibilities of this entity,
- (iv) specialized training programs for staff of key institutions responsible for the implementation of an effective AML regime; and
- (v) development and implementation of a strategy for strengthening and maintaining support for the implementation of an effective AML regime.

#### **B. Methodology and Key Activities**

10. The TA will conduct activities to facilitate the implementation of an effective anti-money-laundering regime in Mongolia. In particular, it will include

- (i) assessment of the adequacy of recently drafted AML legislation against the best international practices, and recommended amendments to the legislation, if necessary;

- (ii) draft implementation rules and regulations for the AML law;
- (iii) assessment and a detailed blueprint for information technology and reporting requirements for an effective monitoring system to track suspicious financial transactions. To enable the Government to acquire and establish such a system, as early as possible, the blueprint and requirements for the system will be developed by a small team of international and domestic consultants ahead of the rest of the TA;
- (iv) a time-bound action plan with milestones for implementing the AML regime in close consultation with implementing government agencies and other relevant regional and international groups; and
- (v) training seminars for key institutions responsible for the implementation of the AML regime: training will be conducted by consultants engaged under the TA, but additional resource persons may also be brought in, as necessary, to conduct targeted workshops on special areas, and the training programs will be designed and implemented in close consultation with existing training institutions.

### **C. Cost and Financing**

11. The TA is estimated to cost \$590,000 equivalent, comprising \$430,000 in foreign exchange costs and \$160,000 equivalent in local currency costs. The Government has requested ADB to finance \$430,000 equivalent to cover the entire foreign exchange cost and \$70,000 equivalent of local currency costs. The TA will be financed on a grant basis, with a portion amounting to \$286,000 equivalent being financed by the Government of Spain, and \$214,000 equivalent by ADB's TA funding program. The Government will provide the remaining local costs equivalent to \$90,000 to cover in-kind costs and services. The cost estimates and financing plan are in Appendix 2.

### **D. Implementation Arrangements**

12. BOM will be the Executing Agency for the TA. An interagency coordination committee chaired by BOM's executive director and including representatives from each of the implementing agencies will be established. The implementing agencies will include MOFE, Mongolian Securities and Exchange Commission, and Ministry of Justice and Home Affairs. The coordination committee will play a central role in facilitating smooth implementation of the TA.

13. The TA will be implemented over a period of 6 months and is expected to commence in September 2004 and be completed by March 2005. The TA will require an estimated total of 18 person-months of consulting services, consisting of 9 person-months of international, and 9 person-months of domestic consulting services. The international consultants will include an AML expert and team leader (4 person-months), a financial sector expert (1 person-month), a forensic accounting and financial Intelligence unit expert (2.5 person-months), and an information technology and communication expert (1.5 person-months). The domestic consultants will be engaged for the same length of time as the corresponding international consultants. The consultants will be selected and engaged in accordance with ADB's *Guidelines on Use of Consultants* and other arrangements acceptable to ADB for the engagement of consultants. The outline terms of reference for consultants are in Appendix 3.

14. The team leader will coordinate the inputs of all other consultants. The consultants will submit (i) an inception report within 3 weeks after start of services, (ii) interim progress reports at appropriate stages of TA implementation, (iii) a draft final report before TA completions, and (iv) the final TA report 2 weeks after receiving comments from the BOM and ADB. Seminars and workshops will be organized intermittently to invite comments from international and domestic experts in the field, and to disseminate the TA findings. Computers and other equipment to support the implementation of the TA will be procured by direct purchase in accordance with ADB's *Guidelines for Procurement*.

#### **IV. THE PRESIDENT'S DECISION**

15. The President, acting under the authority delegated by the Board, has approved (i) ADB administering a portion of technical assistance not exceeding the equivalent of \$286,000 to be financed on a grant basis by the Government of Spain, and (ii) ADB providing the balance not exceeding the equivalent of \$214,000 on a grant basis to the Government of Mongolia for Establishing an Effective Anti-Money Laundering Regime, and hereby reports this action to the Board.

## TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p><b>Goal</b></p> <p>Transparent financial system</p>	<ul style="list-style-type: none"> <li>• Adequate legal framework established</li> <li>• Key institutions capable of monitoring suspicious transactions</li> </ul>	<ul style="list-style-type: none"> <li>• Review missions</li> <li>• Consultants' final report</li> <li>• Financial Sector Program Loan III (FSPL III)</li> </ul>	
<p><b>Purpose</b></p> <p>An effective AML regime</p>	<ul style="list-style-type: none"> <li>• Key constituencies mobilized in support of an effective AML regime</li> <li>• Adequate capacity built in key institutions to effectively carry out their AML functions</li> </ul>	<ul style="list-style-type: none"> <li>• Review missions</li> <li>• Consultants' final report</li> <li>• FSPL III</li> </ul>	<ul style="list-style-type: none"> <li>• Assumption (A): Government commitment to establish AML regime</li> <li>• Risk (R): Weak absorptive capacity of key institutions</li> <li>• (R): Lack of coordination among key institutions</li> </ul>
<p><b>Outputs</b></p> <ul style="list-style-type: none"> <li>• Time-bound plan with milestones for implementing an effective AML regime</li> <li>• Development of a system to monitor suspicious transactions</li> <li>• Provision of specialized training across a wide range of key institutions responsible for implementing the AML regime</li> <li>• Strategy for strengthening and maintaining support for the implementation of an effective AML regime</li> </ul>	<ul style="list-style-type: none"> <li>• Time-bound plan completed</li> <li>• Blueprint detailing design and requirements for monitoring system</li> <li>• Appropriate training programs designed and implemented</li> <li>• Strategy completed and implemented</li> </ul>	<ul style="list-style-type: none"> <li>• Review missions</li> <li>• Consultants' Final report</li> <li>• Progress reports</li> <li>• Review missions</li> <li>• (FSPL III)</li> </ul>	<ul style="list-style-type: none"> <li>• (A): Government's commitment to establish an effective AML regime</li> <li>• (R): Insufficient implementation of the monitoring system blueprint</li> <li>• (R): Training effectively implemented</li> <li>• (A): Constituencies are appropriately identified, and strategy understood by key institutions</li> <li>• (R): Weak absorptive capacity of key institutions</li> </ul>
<p><b>Activities</b></p> <ul style="list-style-type: none"> <li>• Review draft AML legislation</li> </ul>	<ul style="list-style-type: none"> <li>• Deficiencies in the existing law identified and addressed</li> </ul>	<ul style="list-style-type: none"> <li>• Inception report</li> </ul>	

*Continued on next page.*

**TECHNICAL ASSISTANCE FRAMEWORK—Continued**

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<ul style="list-style-type: none"> <li>• Draft Implementation rules and regulations for AML system</li> <li>• Assess Information Technology needs and prepare a blueprint for IT system and reporting requirements for an effective monitoring system</li> <li>• Train key institutions responsible for the implementation of the AML regime</li> </ul>	<ul style="list-style-type: none"> <li>• AML implementation rules and regulations completed</li> <li>• Assessment and detailed blueprint for IT system and reporting requirements for an effective monitoring system to track suspicious transactions completed</li> <li>• Actual training seminars</li> </ul>	<ul style="list-style-type: none"> <li>• Progress report</li> <li>• Progress report</li> <li>• Review missions</li> <li>• Training seminar attendance</li> <li>• Consultants' reports</li> </ul>	<ul style="list-style-type: none"> <li>• (A): Government's commitment</li> <li>• (A): Training seminar content is appropriately tailored for target institutions</li> </ul>
<p><b>Inputs</b></p> <ul style="list-style-type: none"> <li>• 9 person-months of international consultants</li> <li>• 9 person-months of domestic consultants</li> <li>• International and local travel</li> <li>• Reports and communications</li> <li>• Equipment</li> <li>• Resource persons and training workshops</li> <li>• Study tour</li> <li>• Administrative expenses</li> <li>• Contingencies</li> </ul> <p><b>ADB and Government of Spain Financing</b></p>	<ul style="list-style-type: none"> <li>• \$300,000</li> <li>• \$37,000</li> <li>• \$50,000</li> <li>• \$15,000</li> <li>• \$5,000</li> <li>• \$25,000</li> <li>• \$40,000</li> <li>• \$2,000</li> <li>• \$26,000</li> </ul> <p align="center"><b>\$500,000</b></p>	<ul style="list-style-type: none"> <li>• Consultants' reports</li> <li>• Review missions</li> </ul>	<ul style="list-style-type: none"> <li>• (A): Competent consultants</li> <li>• (A): Government provides adequate counterpart support</li> <li>• (A): Government's commitment to the establishment of the AML regime</li> </ul>

AML = anti-money-laundering, IT = information technology.

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
<b>A. Asian Development Bank (ADB) and Government of Spain Financing<sup>a</sup></b>			
1. International Consultants			
a. Remuneration and Per Diem			
i. International Consultants	300.0	0.0	300.0
ii. Domestic Consultants	0.0	37.0	37.0
b. International and Local Travel	50.0	0.0	50.0
c. Reports and Communications	10.0	5.0	15.0
2. Equipment	0.0	5.0	5.0
3. Training, Seminars, and Conferences			
a. Facilitators and Resource Persons	5.0	0.0	5.0
b. Training and Workshops	10.0	10.0	20.0
4. Study Tour	40.0	0.0	40.0
5. Miscellaneous Administration and Support Costs	0.0	2.0	2.0
6. Contingencies	15.0	11.0	26.0
<b>Subtotal (A)</b>	<b>430.0</b>	<b>70.0</b>	<b>500.0</b>
<b>B. Government of Mongolia Financing</b>			
1. Office Accommodation and Transport	0.0	45.0	45.0
2. Remuneration and Per Diem of Counterpart Staff	0.0	35.0	35.0
3. Others	0.0	10.0	10.0
<b>Subtotal (B)</b>	<b>0.0</b>	<b>90.0</b>	<b>90.0</b>
<b>Total</b>	<b>430.0</b>	<b>160.0</b>	<b>590.0</b>

<sup>a</sup> To be financed by Government of Spain on a grant basis, not exceeding \$286,000, and administered by ADB. The balance of \$214,000 to be financed by ADB's technical assistance funding program.  
Source: ADB estimates.

## OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

### A. International Consultants

#### 1. Anti-Money-Laundering Expert and Team Leader (4 person-months)

1. The team leader will be an Anti-Money-Laundering expert with extensive advisory experience in establishing AML regimes. The team leader will be responsible for the overall management of the technical assistance and the timely delivery of reports. The terms of reference for the team leader will include, but not be limited to

- (i) reviewing the adequacy of the recently drafted legislation in line with country-specific features and best international practices, and recommending amendments if required;
- (ii) drafting implementing rules and regulations for the AML legislation;
- (iii) preparing a time-bound action plan for the establishment of an effective AML regime;
- (iv) designing and conducting training seminars for staff of key institutions responsible for the implementation of the AML regime; and
- (v) helping recruit the domestic AML consultant by drafting the TOR and identifying and short-listing candidates.

#### 2. Financial Sector Expert (1 person-month)

2. The expert will have expertise in the area of financial regulation and supervision and will have had experience in the design of reporting requirements for an effective AML regime. The TOR of the expert will include, but not be limited to

- (i) diagnosing the vulnerabilities of the existing system with respect to the reporting requirements of individual financial institutions, and the mechanisms for information sharing among the financial regulators and supervisors;
- (ii) recommending achievable, concrete measures to strengthen reporting functions for inclusion in the time-bound implementation plan; and
- (iii) helping to recruit the domestic financial sector consultant by drafting the TOR and identifying and short-listing candidates.

#### 3. Information Technology Expert (1.5 person-months)

3. The expert will have had substantial experience in the design, costing, and implementing suspicious transaction monitoring systems. The TOR of the expert will include, but not be limited to

- (i) developing a blueprint for a system to monitor suspicious transactions; the design should (a) reflect local institutional factors conditioning the flow of information within the financial institutions; (b) identify hardware, software, and training requirements for the system, and (c) suggest a range of cost-effective options for meeting these requirements;

- (ii) recommending appropriate staffing level and skill mix needed for the system to monitor suspicious transactions to function effectively; and
- (iii) helping to recruit the domestic information technology consultant by drafting the TOR and identifying and short-listing candidates.

**4. Forensic Accounting and Financial Intelligence Unit Expert** (2.5 person-months)

4. The expert will have a forensic accounting background, operational experience in a Financial Intelligence Unit and experience in designing and conducting training programs to strengthen the investigative functions of an AML regime. The expert will

- (i) assess the requirements for the Bank of Mongolia to establish the FIU, taking into account the training to be provided by the United States Department of Treasury;
- (ii) in collaboration with other team experts recommend achievable measures to establish and strengthen effective investigative functions of the FIU, for inclusion on the time-bound implementation plan;
- (iii) assist the team leader in designing and conducting a training program for staff in key institutions responsible for implementing the investigative functions of the AML regime; and
- (iv) helping to recruit the domestic counterpart consultant by drafting the TOR and identifying and short-listing candidates.

**B. Domestic Consultants**

5. Four domestic consultants will be recruited to work closely with the four international consultants. The domestic consultants will have relevant expertise, and will assist the international consultants by

- (i) providing background information;
- (ii) translating documents; and
- (iii) helping draft reports, and organizing training and workshops.

More detailed TORs for domestic consultants will be prepared by the international consultants.