

## TERMS OF REFERENCE FOR CONSULTANTS

### A. Banking Reform Advisory and Capacity Building Consultant

(consulting firm; estimated input: 15 international and 24 national person-months, intermittent during April 2021–June 2023; partial lump sum contract)<sup>1</sup>

#### I. Background

1. The knowledge and support technical assistance (TA) will help strengthen the capacity and policies of the Bank of Mongolia (BOM) to be ready to implement the measures to reduce bank ownership concentration, improve bank accountability, strengthen risk management, and promote emergence of a larger and more diverse new technology-based financial instruments and business models. BOM's Bank Restructuring and Policy Department (BRPD) created in June 2020 is responsible for improving the policies and regulations in the abovementioned areas. BOM, through its BRPD, will be the executing agency (EA) for the TA. BRPD's Policy Division will be the operational focal for the TA and the primary counterpart for the consultant.

2. The TA's expected impact is increased investor confidence in and expanded financial intermediation of Mongolia's banking sector. The expected outcome—strengthened framework and policies for supporting governance, stability, and development of the banking sector—will be achieved through implementation of three outputs described below. The TA's indicate implementation period is 1 January 2021–30 June 2023.

3. **Output 1: Policy advice on regulatory frameworks on bank ownership and accountability finalized.** This output will support (i) assessment of BOM's rules and supervision of banks' significant and ultimate ownership (held directly, indirectly and by related parties);<sup>2</sup> (ii) preparation of regulations on bank mergers and acquisitions,<sup>3</sup> maximum investments, approval of (significant) shareholders, the rights of minority shareholder interests, and changes in control; (iii) design of bank ownership prudential conditions and criteria; (iv) strengthening of 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 capacity of BOM in identification and addressing the concerns on bank ownership, control, and mergers and acquisitions. This output will also assess legal, regulatory, accounting, taxation, market capacity, and investor depth issues; propose options; and prepare a roadmap on banks' public listing.<sup>4</sup> An important precondition for the implementation of this output will be adoption of the amendments to the Law on Banking as the proposed amendments will provide the legal basis for pursuing with the reduction of bank ownership concentration and public listing of banks.<sup>5</sup>

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<sup>1</sup> This period reflects the still uncertain situation with the COVID-19 pandemic that may delay the delivery of the consultant on the assignment. If the travel and gathering conditions allow for a faster implementation, then the contract will be closed prior to the currently expected completion date, upon agreement between BOM and ADB.

<sup>2</sup> Including compliance with Basel Committee on Banking Supervision Core Principles for effective banking supervision, particularly Principles 6 and 7 on transfer of significant ownership and major acquisitions.

<sup>3</sup> This will include strengthening of supervisory, legal, corporate structure, taxation, and accounting elements to support mergers and acquisitions.

<sup>4</sup> 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 (FRC), and the Mongolian Stock Exchange. The TA will seek to promote mainstreaming green principles in the public listing of banks.

<sup>5</sup> The [Law on Banking](#) dated 28 January 2010. The [amendments to the Law on Banking](#) were submitted for the Parliament's consideration on 20 August 2020. The corresponding department of Parliament is the Standing Economic Committee on Economic Affairs.

4. **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 International Financial Reporting Standard 9 (IFRS9); (ii) analyze impact of IFRS9 on banking sector prudential ratios and develop a transition plan for BOM; (iii) update the accounting guidelines to be in line with the IFRS9 and test them in selected banks; and (iv) conduct capacity building on IFRS9 for 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, BOM, and the Mongolian Bankers Association in risk management and handling of nonperforming loans (NPLs) upon elimination of regulatory forbearance and implementation of IFRS9.<sup>6</sup>

5. **Output 3: Digital financial products and business models promoted.** This output will support (i) midterm assessment of the government's financial market reform and development program and recommendations for its 2021–2025 phase;<sup>7</sup> (ii) assessment, development of options, and preparation of regulations to support new digital financial products and financial models that would ease microenterprises' and small- and medium-sized enterprises' (MSME) access to finance beyond traditional banking models (e.g., assessment of digital infrastructure for digital financial services; regulations on digital contracts, e-signature, e-Know-Your-Client, digital banking, and credit scoring based on big data analytics or artificial intelligence);<sup>8</sup> (iii) development and strengthening of linkages between digital financing and e-commerce;<sup>9</sup> and (iv) knowledge transfer based on the regional success stories in FinTech and digital banking.<sup>10</sup>

6. To deliver the outputs of this TA, ADB will recruit a banking reform advisory and capacity building consulting firm (consultant).<sup>11</sup> The consultant will be selected based on full-technical proposals following the quality- and cost-based selection method (quality and cost ratio of 80:20) and engaged under a partial lump sum contract. ADB will post the request for expressions of interest (EOI) on ADB's Consulting Services Recruitment Notice website after no objection of the BOM on the consultant TORs.<sup>12</sup>

7. Given the international travel uncertainty and in-country gathering restrictions arising from the corona virus disease (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.

<sup>6</sup> All outputs will include workshops and roundtable discussions to solicit stakeholder views on the TA's topics.

<sup>7</sup> The 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 JICA's Capacity Building of Capital Market in Mongolia Project. It will be also coordinated with the capital market diagnostic and roadmap development for Mongolia under the proposed regional TA on Capital Market Development and Reform in Developing Asia (Phase 1) of ADB's Financial Sector Group. Strategic assessment of the potential for introducing open banking in Mongolia will be also conducted.

<sup>8</sup> The work on items (i) and (ii) will be coordinated with the relevant outputs and activities of ADB-supported Payment System Modernization Project. The work on credit scoring will include review of the ways to (i) strengthen the institutional set-up on credit information to enable better provision of such services to finance sector players, and (ii) mainstream environmental, social and governance elements in the credit scoring.

<sup>9</sup> The 2017 Law on National Payment System allows for the creation of digital money. Currently, three e-money types are licensed in Mongolia.

<sup>10</sup> For example, the experience of Ant Financial Services Group and WeChat Pay in digital banking and payments.

<sup>11</sup> Consultants may associate with each other in the form of a joint venture or of a sub-consultancy agreement to complement their respective areas of expertise, strengthen the technical responsiveness of their proposals, and make available bigger pools of experts, provide better approaches and methodologies.

<sup>12</sup> ADB will share the shortlisted consultants and their EOIs with the BOM for no objection. ADB will share the received technical proposals with BOM and will invite BOM to join the contract negotiations with the first-ranked consultant.

8. **Implementation arrangements.** BOM, through BRPD. BRPD will assign senior level staff (one primary and one back-up) of its Policy Division to support the project in all aspects, including in the provision of the required information, facilitating meetings with government staff, helping with organization of discussions and workshops, and coordinating inputs and comments to the consultants' deliverables. BOM will establish an interagency working group chaired by BRPD and comprising director general or director level staff of (i) BOM's Supervisory Department, and Legal Department, (ii) the Financial Policy Department of the Ministry of Finance, (iii) the International Cooperation Department of the Financial Regulatory Commission, (iv) and Mongolia Stock Exchange's Operations Department. The working group will meet at least every 6 months to review the status of the TA 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 MNRM-based project team member may join the meetings of the working group upon request.

9. **Coordination with banking industry.** BOM will seek to arrange with the Mongolian Bankers Association (MBA) to use the MBA's sub-groups (pro-councils) on legal issues, risk management, and digital products as platform for the consultations with the banking industry and development partners for the TA's outputs 1, 2, and 3, respectively. Upon establishment of such arrangement, the consulting firm that will be recruited under the TA will use the concerned sub-group of MBA to seek inputs to and comments on the deliverables, and also to disseminate the final products. BOM will also seek to arrange with MBA to provide, at no cost to the TA, the coordinators to each output of the TA and facilities for the conduct of the consultation events. BOM will inform ADB of the planned consultations with the banking industry, which ADB may join. During the TA review missions (expected to be twice a year), ADB will seek to organize coordination meetings with the development partners. ADB may provide staff to act as resource persons in the TA's workshop and conferences.

## **II. Scope of Work**

10. The consultant will provide BOM the required technical, analytical, and capacity building assistance in the areas of bank ownership and control, public listing of banks, bank accounting standards, finance sector development planning, and digital financial products.

11. The consultant will need to program the implementation of the scope of work with due consideration and flexibility arising from the travel and gathering restrictions caused by COVID-19 pandemic (e.g., frontloading of work that can be done at home office or using virtual communication tools). The consultant will need to have access to reliable virtual communication programs and platforms to host and efficiently conduct video calls with BOM and other stakeholders throughout the contract period.

12. The TA consultants and other relevant parties may be required to sign a non-disclosure agreement with the Bank of Mongolia.

## **III. Detailed tasks and activities**

13. In the delivery of the assistance mentioned above, the consultant shall be guided by the detailed description of the TA's outputs in paras 3–5 above.

14. The consultant is expected to follow (and improve, if needed) the below generic methodology for the work on the items arising from the description of the TA's outputs in paras 3–5 above:

- a. Analyze relevant country and sector data, legislation, and other knowledge work and products. Special attention shall be paid to the initiated reforms in the finance sector and in the banking industry. Analysis may involve desk review and video/phone communication with ADB and government counterparts.
- b. Based on the analysis above and in consultation with BOM and ADB, define relevant international experiences to be considered most adequate for contextualization in Mongolia.
- c. Based on items above, draft the required assessments, plans, or regulatory documents. The drafts (with the translation to Mongolian) will be submitted to BOM, other stakeholders (per the established coordination and consultation arrangement under the TA, and ADB) for comments.
- d. Conduct (virtual) mission to Mongolia to meet with the required counterparts to discuss and improve the drafts noted above. At the end of the mission, conduct a consultation workshop with BOM and other pertinent stakeholders to discuss the findings, recommendations, and agree on the content and timelines for finalization of the document or report.
- e. Finalize the document or report based on consultations during the mission and comments of BOM, other stakeholders, and ADB.
- f. Conduct a (virtual) mission to Mongolia to deliver (virtual) training for the relevant BOM and government staff on the application or dissemination of the developed document or report.
- g. Submit the final document or report (and, if applicable, the report on the conducted training) be in accordance with the requirements of ADB's 2017 Handbook of Style and Usage. The English version of the document must comply in format and style with ADB's template on TA Consultant Reports.
- h. When applicable, the Mongolian translation of the consultant's deliverables must be quality checked and vetted by the relevant national experts of the consultant.
- i. Join and contribute to ADB's TA review missions, upon request of ADB.

15. The consultant is expected to maintain and submit to BOM and ADB well-documented data and excel files used for reports and documents developed under the TA. All literature review and data collected for this assignment should be submitted as part of deliverables along with the submission of final report.

16. Through BOM and ADB, the consultant will duly consider (and reflect in the deliverables) the past, ongoing, and planned support of the development partners in TA-related area to ensure synergy and avoid overlap.

#### **IV. Deliverables**

17. The consultant must submit the following five deliverables to BRPD and ADB:

- 1) Inception report detailing the methodology, implementation plan, and business protocol for the delivery of the scope of work.
- 2) Report on strengthening regulatory frameworks on bank ownership and accountability. Among other items that the consultant may propose and BOM may agree to, it will include:
  - Guideline on supervision of banks' ownership and control. Among others, it would cover bank ownership prudential conditions and criteria; bank transparency and

- information disclosure; bank corporate affiliations or structures to mitigate undue exposure risks for the banks.<sup>13</sup> It would also include summary report on training to raise capacity of BOM in identification and addressing the concerns on bank ownership, control, and mergers and acquisitions.
- Draft regulation on banks' significant ownership and changes and control. Among others, it would include regulations on bank mergers and acquisitions, 15 maximum investments, approval of significant shareholders, the rights of minority shareholder interests and changes in control.
  - Draft roadmap for listing of banks on the stock exchange. It will be based on the assessment of legal, regulatory, accounting, taxation, market capacity, and investor depth issues; and proposals to address the identified issues.
- 3) Report on strengthening accounting and reporting of bank assets. Among other items that the consultant may propose and BOM may agree to, it will include:
- Updated bank accounting guidelines in line with IFRS 9, based on the assessment of existing guidelines and practices on bank accounting of financial instruments.
  - In person training of BOM staff and other stakeholders on IFRS 9
  - Guideline for BOM on assessing nonperforming loan reports of banks (including based on IFRS 9)
  - Summary report on knowledge sharing events in credit risk and nonperforming loan management practices.
- 4) Report on promoting more diverse financial sector development. Among other items that the consultant may propose and BOM may agree to, it will include:
- Mid-term review of the 2018–2025 financial market development program with recommendations on mainstreaming new financial instruments and business models. The work on the mid-term review will include stocktaking of e-commerce and digital payment platforms in Mongolia, and assessment of the digital infrastructure's readiness for the digital financial services.
  - Plan for development and supervision of FinTech and digital banking solutions.
  - Draft amendments to the regulation on bank licensing to license moderate digital banking business model.
  - Comprehensive guide for the implementation of the REGTECH.
  - Summary of training on FINTECH to BOM staff and other pertinent government agencies' officials.
  - Two proposals on innovative digital financing products that expand SME financing and strengthen linkages with e-commerce submitted to BOM.<sup>14</sup>
- 5) Completion report (maximum 10 pages ) that will conceptually reflect issues, consultant's work outputs and outcomes, lessons learned and proposed measures for future for BOM and ADB, respectively. This report must include e-versions of all documents and reports

<sup>13</sup> This will include an assessment of the practices and regulations on (i) banks' investment and lending to bank owners' affiliated parties, and (ii) bank owners' pledging of bank shares for borrowing.

<sup>14</sup> The Ant Group's experience, which started as payment service on Alibaba e-commerce platform, represents a useful and successful regional experience in promoting new technology based and non-collateral SME lending to draw on. Source: The Economist (10 October 2020 issue). [Ant's jumbo IPO](#). ADB's East Asia Department signed a memorandum of understanding with Alibaba, whose technical advice may be requested specific issues on the proposed digital financial products and their linkages with the e-payment platforms.

(in English and Mongolian, as applicable) and summaries of capacity building workshops and trainings (including presentations done and training materials) conducted by the consultant during the assignment.

18. ADB will pay the consultant for the deliverables after BOM's acceptance or on no-objection basis.

## V. Team Composition and Qualification Requirements for the Key Experts

19. Delivery of the envisaged scope of work will require the consultant's adequate expertise in (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) financial sector development (banks, non-banks, capital market); and (v) FinTech. An overview of the team of experts is in the table below.

Consultant title	Indicative estimated input
<b>I. International consultants</b>	
1. Banking specialist and Team Leader	5 person-months
2. Legal counsel (banking)	3 person-months
3. Financial management specialist (bank accounting)	2.5 person-months
4. Financial sector development specialist	2.5 person-months
5. FinTech specialist	2 person-months
<b>II. National consultants</b>	
1. Banking specialist and Deputy Team Leader	8 person-months
2. Legal counsel (banking)	4 person-months
3. Financial management specialist (bank accounting)	4 person-months
4. Financial sector development specialist	5 person-months
5. FinTech specialist	3 person-months

20. **Banking specialist (ownership, control, mergers and acquisitions, asset-liability management) and Team Leader (international, 5 person-months, intermittent).** The team leader (TL) will lead the consultant's work on all aspects related to banking and bank supervision and will also represent the consulting firm in all contract-related matters, such as contractual, personnel, scheduling, and technical performance issues. The TL will attend meetings with the local stakeholders and ADB, as required, to discuss the status of contract implementation, provide general direction and support to the consultant team, and provide quality assurance of project deliverables. The TL will have a university degree in finance, business administration, economics, or related field and about 15 years of direct international experience in banking/banking sector reform/bank supervision and managing project teams. Managing projects and experience in banking sector in Mongolia will be a strong merit. The TL must have excellent analytical, writing, and presentation in English. Knowledge of Mongolia will be an additional merit.

21. The TL's duties will include, but are not limited to:

- (i) liaising with BOM and informing ADB on any issues that may affect project implementation, and ensuring the consultant achieves the intended objectives within the set timelines,
- (ii) coordinating the stakeholders' inputs per agreed time bound work plans,
- (iii) ensuring outputs of team members are in accordance with the contract's terms of reference, reviewing, commenting, and approving such outputs, as needed,
- (iv) ensuring all contracted deliverables are prepared in a timely manner, and managing project scheduling,
- (v) briefing team members on (on changes in the operating environment or procedures),
- (vi) approving timesheets and expense claims of team members, managing any emerging issues, and leading the firm's work on contract administration,
- (vii) developing and submitting the quarterly progress reports based on inputs by the team members as required by ADB and BOM,
- (viii) submitting the inception mission report (including detailed implementation plan and business protocol), short quarterly progress reports highlighting the work done and the agenda for the next quarter, and completion report to ADB and BOM. The completion report shall include lessons learned, a sustainability plan, and other recommendations that would ensure that the gains achieved from the assignment are fully institutionalized.

**22. Banking specialist and Deputy Team Leader (national, 8 person-months, intermittent).** The deputy team leader (DTL) will support the team leader in all banking and bank supervision work and in contract management. The DTL will be the primary responsibility for ensuring efficient organization of the consultant's work on the ground and coordination with BOM and local stakeholders. The DTL will attend meetings with the local stakeholders and ADB, as required, to discuss the status of contract implementation, ensure effective and efficient work of the national experts, ensure quality and country/sector relevance of project deliverables (including the quality of the documents in Mongolian). The DTL will have a university degree in finance, business administration, economics, or related field and about 10 years of direct experience in banking/banking sector reform/bank supervision in Mongolia and coordinating project teams. Experience of working for BOM under development partner projects will be a merit. The DTL must have good analytical, writing, and presentation in English and Mongolian.

**23. Expert Team (10 international and 16 national person-months, intermittent).**<sup>15</sup> The consultant team will need to have *international* and *national* expertise in (i) legal aspects of banking (corporate governance; legal form; public listing; FinTech); (ii) financial management (bank accounting); (iii) financial sector development (banks, non-banks, capital market); and (iv) FinTech.

24. The international consultants should have (i) university degree in a field related to the area of their expertise; (ii) about 10 years of relevant international work experience; and (iii) excellent skills in writing and presenting in English. Relevant working experience in Mongolia will be a strong merit.

25. The national consultants should have (i) university degree in a field related to the area of their expertise; (ii) about 7 years of relevant work experience; and (iii) good skills in writing and

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<sup>15</sup> *Indicative* inputs of **international** experts in person-months is: (i) legal aspects of banking – 3; (ii) financial management – 2.5; (iii) financial sector development – 2.5; (iv) FinTech – 2. *Indicative* inputs of **national** experts in person-months is: (i) legal aspects of banking – 4; (ii) financial management – 4; (iii) financial sector development – 5; (iv) FinTech – 3.

presenting in English and Mongolian. Relevant working experience with or for BOM under a development partner project will be a strong merit. The national consultants will ensure that advice given by the international experts, with whom they will work, is consistent with Mongolia's laws, rules, regulations, and country and sector context.

## VI. Reporting Requirements and Deliverable Time Schedule

26. Tentatively, the schedule of the Consultant's outputs and the associated share of the remuneration is presented in the table below.

No.	Deliverable	Estimated tentative timeline (T = time of issuance of NTP)	<i>Indicative</i> Share of Remuneration (subject to change at contract negotiations)
1	Inception report (10 working days after the inception mission's completion and reflecting the BOM's and ADB's comments)	T + 1 month	10%
2	Report on strengthening regulatory frameworks on bank ownership and accountability	T + 6 months	30%
3	Report on strengthening accounting and reporting of bank assets	T + 12 months	25%
4	Report on promoting more diverse financial sector development	T + 18 months	25%
5	Completion report	T + 24 months	10%

27. The TL will prepare and deliver (in soft copy and 3 hard copies) the above listed deliverables in English and Mongolian to BOM and ADB. Selected knowledge outputs may be made public on the websites of BOM and ADB, as applicable.

28. The consultant will develop business operational procedures (to be approved by BOM) detailing all internal processes (e.g. communication aspects, timelines, clearances) required for accomplishing the activities under the scope of work. The consultant will have own basic equipment and software (e.g., computers, office and internet software, and digital communication programs and platforms for virtual meetings and events).

## VII. BOM's input and counterpart personnel

29. BOM will provide the consultants with suitable office space, connection to the phone and internet, data and information, access to the required staff and facilities, and other in-kind resources as may be reasonable requested by the consultants. BOM's BRPD will assign technical and administrative counterpart staff to work closely with the consultants. The BOM will seek to arrange with the Mongolian Banker Association on the use of the latter's pro-councils (subgroups) and premises for the conduct of the consultation and coordination meetings and capacity building activities under the TA.

**B. Resource persons (e-commerce, digital finance, new business models),** (2 person-months international and 1 person-month national)

30. To facilitate sharing of the international knowledge with BOM, the concerned government agencies, and the Mongolian banking industry the TA will engage experienced public and private sector professionals renowned for the achievements in the design and implementation of e-commerce platforms, new digital finance and business models in the banking sector.
31. The resource persons and/or individual consultants will undertake the following key tasks:
- (i) presenters, facilitators, and panelists for the knowledge sharing events, workshops, conferences, and seminars; and
  - (ii) representatives of the finance and private sectors and academia, and other individuals from the regional countries recommended by BOM and selected by ADB to (a) act as discussants on related policy issues; (b) present findings, research results, and policy advice and/or suggestions; and (c) review reports and/or comment on selected research.