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Restructuring the Mongolian Credit Information Bureau: Prospects for privatization

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ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
BOM	Bank of Mongolia
CIB	Credit Information Bureau
DCA	Development Credit Authority
EBRD	European Bank for Reconstruction and Development
EPRC	Economic Policy Reform and Competitiveness Project
IFC	International Finance Corporation
IFI	International Financial Institution
MBA	Mongolian Bankers Association
NBFI	Non-bank financial institution
NPL	Non-performing loan
SCCs	Savings and Credit Cooperatives
SMEs	Small and medium-sized enterprises
USAID	United States Agency for International Development

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EXECUTIVE SUMMARY

Since the mid-1990s, Mongolia's Credit Information Bureau (CIB) has operated out of the central bank, the Bank of Mongolia (BOM). Its usage by commercial banks and non-bank financial institutions is growing rapidly. However, user complaints about the reliability and timeliness of borrower data in the CIB have also risen, resulting in (a) the convening of a well-attended public forum organized by EPRC and BOM in November 2005 to discuss the issues, and (b) the genesis of an evaluation project where this consultant was brought to Ulaanbaatar to assess the current and future needs of the CIB with an objective of eventually shifting its ownership and management to the private sector.

The banking community unambiguously values the information obtained from the CIB. Virtually all banks maintain that they do not make a loan without making an inquiry to the CIB first. The CIB nonetheless needs improvements, particularly in its technical capacity and deepening of the data base. A large majority of stakeholders, including the BOM and creditors, favor eventual privatization of the CIB.

However, there is no consensus on the timing for privatization and no one bank or group of banks was willing to step forward and lead the process. Banks thought they should own the CIB but none were enthusiastic about committing share capital at this point. The Mongolian Bankers Association also declined to take charge.

The Mongolian banking sector suffers from a number of weaknesses that make creating a private CIB more difficult while simultaneously underlining the importance of having one. The principal weaknesses that affect the prospects for a private CIB are:

1. High levels of explicit and implicit bad debts
2. High lending risks where borrowers rely on high leverage
3. A lack of audited accounts, and a lack of financial sector transparency
4. A weak culture among some classes of borrowers for honoring debt and weak mechanisms for punishing defaulters
5. Weak institutional capacity for credit risk and project analysis
6. Gaps in the legal and regulatory framework and an element of moral hazard.

All laws relating to matters of privacy, information sharing and privatization were reviewed to determine how they might affect a CIB. The conclusion was that there are no large barriers to privatizing the CIB. There are, however, many areas of legal ambiguity and interpretation that can best be solved with the passage of a separate Law on Credit Information Bureaus, which this study strongly recommends.

A separate CIB law would provide clarity and protect stakeholders; it would define precise and specific delegations of rights, boundaries and allowable practices; and it would help legitimize and accelerate the privatization process.

A number of conditions support the creation of a private CIB: the backing and experience of the Bank of Mongolia, a virtual consensus and eagerness among creditors, no explicit legal roadblocks, a unique identifier for all individuals and companies, Basle II's looming requirements on credit assessment, and growing retail demand for mortgages and credit cards. In addition, the Bank of Mongolia produced pro forma income statements for the current CIB and found that by introducing a nominal fee for each creditor inquiry, the CIB would virtually be profitable now.

At the same time, a number of other conditions constrain the creation and sustainability of a private CIB, at least over the next year or two. These include incomplete data bases on persons

and businesses, no obvious or credible private sector leader of a CIB effort, needed improvements in the IT structure, corruption and the bureaucratic legacy of the communist period, the lack of an independent and commercially-cognizant judiciary, the absence of movable and immovable property registries, the lack of experience in accepted Western commercial practices and ethics, and the absence of a credit tradition.

The primary recommendation of this report, and one that the Bank of Mongolia has given verbal assent to, is that the BOM take some critical steps toward preparing the CIB for privatization. These steps include:

- 1) Preparing the groundwork by installing improved communication links and software and addressing all user complaints
- 2) Introducing nominal inquiry fees for users
- 3) Exploring legal options for a private CIB, and
- 4) Convening a Working Group of stakeholders to discuss and decide on the critical issues facing such a new venture, such as:
 - a) identifying shareholders and the composition of membership
 - b) drawing up a business plan
 - c) determining when to privatize the CIB
 - d) assuring the security, timeliness, privacy and accessibility of data, and
 - e) engaging foreign technical assistance to get operational.

SECTION I: BACKGROUND

A. Genesis of this consultancy

As part of EPRC's mandate to increase competitiveness, the project has undertaken initiatives to increase the flow of needed financial services to private businesses through a variety of approaches and structures. Two separate EPRC projects in 2005, one on the credit needs of SMEs in Mongolia and the other on housing finance, reported that there was a need for a working credit information bureau (CIB).

The current CIB is operated out of the Bank of Mongolia (BOM) and was deemed by commercial bank users to be deficient in many respects. The bankers complained that the CIB was not meeting their needs because, among other things, the information they received was not timely and the template required to fill out borrower information was cumbersome and irrelevant in parts.

As a result, BOM asked EPRC to organize a public forum where all the issues surrounding the credit information bureau could be aired. The forum was held in November 2005 and was well attended by over 80 representatives of banks, non-bank financial institutions, four public utilities companies, the Mongolian Bankers Association, and Bank of Mongolia. The BOM made a presentation on the current status of the CIB and BOM's plans for its future development.

B. Results of the forum

In the ensuing discussion, the following salient points emerged:

- Mongol Bank should not be the operator, although there was no consensus on who should own and operate the CIB
- Mongol Bank publicly stated that it was not opposed to the bureau's transitioning to the private sector
- Reporting is too detailed, which makes it difficult for banks to submit information on time, causing delays and human error; information submission and retrieval must be online and in real time
- CIB should have a broader scope and include all NBFIs, credit card issuers as well as loans from abroad and project loans
- The CIB should charge fees
- The CIB should be transferred to the Mongolian Bankers Association (MBA) or to a private organization
- There should be more than one CIB to ensure competition to avoid monopolistic practices
- There should be an appropriate legal environment to protect and ensure confidentiality of information and prevent misuse
- Participation in a CIB should be voluntary.

To build on the evident consensus to restructure existing practices, EPRC brought this consultant to Mongolia with the primary task of leading project efforts to support the financial sector to develop a viable and sustainable private sector operated credit information bureau. The terms of reference in Annex A spell out the details of the assignment.

SECTION II: HOW THE CIB WORKS

A. Current operations of the CIB

The Bank of Mongolia has operated the credit information bureau since the mid-1990s, the stated purpose being “to reduce credit risks of banks and non-bank financial institutions.” The BOM received a World Bank loan of \$100,000 in 2002-03 to upgrade the CIB’s software. Since then, the economy, bank credits and bank inquiries to the CIB have all accelerated. Highly automated, the CIB needs a staff of only three.

Commercial banks are required to be a member of the CIB, and NBFIs may choose whether or not to join. Those that sign a data-sharing agreement with the CIB must regularly provide it with both positive information (principal and interest paid on schedule) and negative information (defaults and late payments of interest and principal). In return, user/members acquire access to the data base when inquiring about the creditworthiness of a particular borrower. The CIB is the nation’s only center where debt repayment data are kept.

Unlike in many other countries (e.g., Georgia, Macedonia, Nepal), bankers in Mongolia are not reluctant to share with a central data base their information on those clients who have good payment records. Thus, the CIB data base here is more robust and has more informational value than those where only negative payment information is gathered.

The CIB requires that all commercial banks on a monthly basis submit data on all new loans over 1 million togrog (c. \$850), including updated payment or non-payment information on existing loans over that amount. The CIB maintains that all banks are complying with this requirement, although some commercial banks insist not all banks are contributing fully or in a timely manner. The top five banks (TDB, Golomt, Khan, Anod and Zoos) have 75-80% of the market in terms of loans, assets and deposits; hence the CIB is capturing the vast majority of borrower details.

The BOM has branches in 15 regions that are intended to facilitate the submission of borrower information and diminish time lags in reporting. In practice, due to software and Internet connection problems plus the insistence of the headquarters office of most banks that branches send their loan information through them rather than directly to the CIB, there are still delays and varying submission intervals. In fact, given the IT technology existing at many banks, a number of banks actually send data to the CIB more frequently than required. A few banks urged the CIB to require *daily* updates to the CIB in order to enhance the currency of the information.

Aside from the 16 commercial banks and 26 NBFIs that submit loan data, there are seven government organizations that provide other types of information to the CIB on a quarterly basis. These agencies or departments include the Mongolian Assets Recovery Agency, the Immoveable Property Registration Office, the General Department for Court Decision Enforcement, the General Department of National Taxation, the General Department of Customs, the Citizens’ Registration and Information Center, and the Mongolian Stock Exchange. These organizations update such information as:

- Address changes
- Liabilities registered with the tax and customs authorities
- Data on borrowers with outstanding debt to liquidated banks
- Information on equity shares submitted as collateral
- Changes in the valuation of fixed assets submitted as collateral

However, these government agencies do not have access to the data base to make their own inquiries, except upon a court order. This type of official and unauthorized access to personal information is one of the fears regularly expressed by the banks.

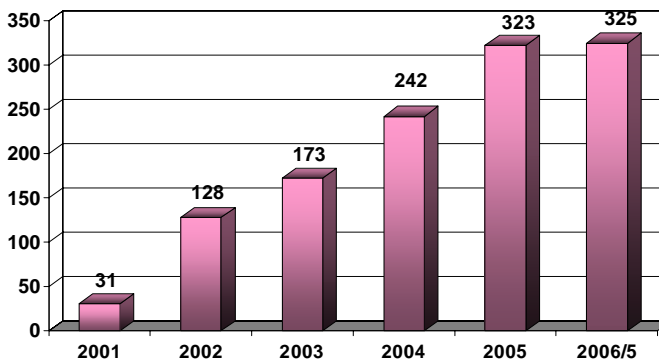
B. Creditor utilization and observations

While banks are required to submit their loan and borrower information to the CIB on a regular basis, they are not required to inquire to the CIB about the each new loan applicant. Yet given the value of the CIB data, the ease of access, and the fact that inquiries are free of charge, virtually all banks do go to the CIB for every loan request. One bank CEO said, “There is no fee so we inquire all the time.”

As borrower numbers and loan issuance grow, commercial banks and NBFIs are accessing the CIB on a regular and more frequent basis. The three charts below track the trends in these numbers in recent years. The most recent data point is May 2006 when more than 12,000 inquiries were received and processed by the CIB.

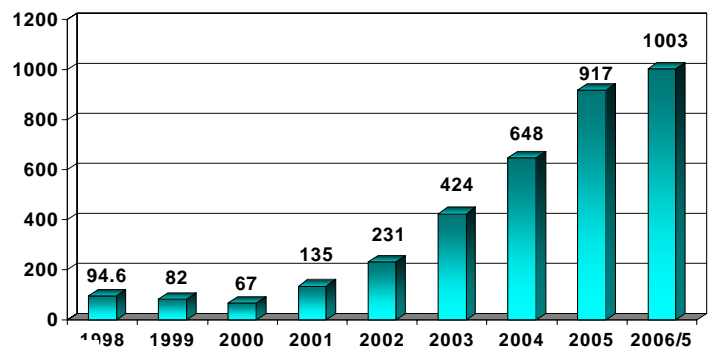
Number of borrowers

(Total Banking Sector, in thousands)

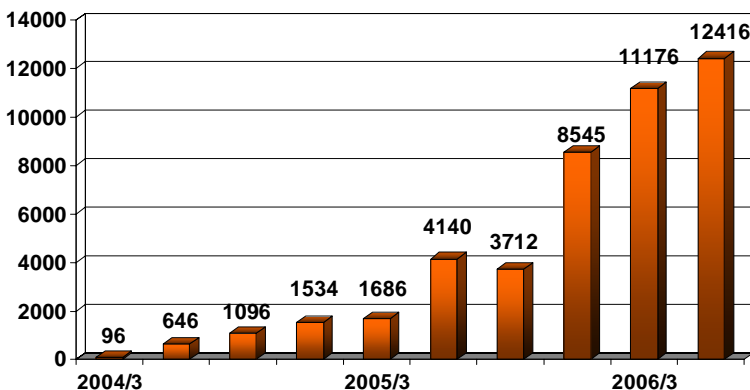


Total loans in banking sector

(Billions of MNT)



Number of inquiries to CIB



B.1. Banks’ perceptions of the CIB

The banking community uniformly utilizes the existing CIB for inquiries and values the information obtained from it. Their support for the CIB is reflected in such comments as

- “It is impossible for us to make a loan without the CIB.”
- “It plays a big role in our credit decisions.”
- “It is our only independent external source of information on borrowers.”
- “The connection to the CIB is safe and technically secure.”
- “We use CIB output to verify borrower information and the amount outstanding.”
- “CIB data shows us the person’s credit culture.”
- “The CIB is very important for our research and review.”

Bankers made clear in the interviews that they wish to alleviate some of their credit risks through improvements in the volume and nature of the information they provide the CIB. They state that their current discussions with the CIB are aimed at (a) improving the CIB’s technical capacity and expanding its data base and (b) effecting a smooth transition of the CIB to the private sector.

Paying for information

The question of paying for CIB information naturally arose. None of the users of the CIB are currently paying fees for participation in the system (user fees) or for discrete inquiries (inquiry fees). Some banks make inquiries about borrowers only once or twice a week, while others may seek CIB data a dozens of times a day. Almost all users said they had no objection to paying inquiry fees for reliable information, although some objected to any annual membership or user fee. The table below summarizes the variety of opinion on both types of fee and the banks’ reasoning behind each choice. No consensus was achieved on the matter, with most banks saying, let a Working Group of stakeholders decide or let the new shareholders determine the level based on the CIB’s financial requirements.

Fee Structure in a Private CIB

Type of fee	Size of fee	Rationale
Membership fees	Same fee for all, e.g., \$5,000 per year	All benefit from info sharing
Membership fees	Bigger banks pay more, smaller banks pay less to be a user of CIB	Most CIB time will be spent servicing those with the most inquiries; and bigger banks can afford the higher cost
Inquiry fees	More inquiries → higher fees	More frequent users (the bigger creditors) have capacity to pay more
Inquiry fees	A graduated scale—banks with the most inquiries pay less per inquiry while banks with fewer inquiries pay more	Banks with most inquiries have higher overhead costs which would be offset by lower fees; moreover, these banks are providing more info into the system than they are receiving back
Inquiry fees	Same for all members, e.g., MNT 400-1,000	An equitable way to help defray CIB’s operating costs
Inquiry fees	Should be fixed at level sufficient to cover CIB operating costs	CIB should be not-for-profit entity servicing the banking sectors needs
Inquiry fees	None	CIB has minimal overhead cost since online access is virtually free

Membership versus ownership

Other key issues on which opinions were solicited included: who should the members or users of a private CIB be? Should membership be restricted or as broad as possible? Who should the shareholders be: just banks or NBFIs too? And when should the current CIB be privatized—as soon as possible or later when the current technical issues are resolved? Finally, would your

bank be willing to take the lead in making the CIB a commercial success? The table below summarizes the banks' views on these matters.

The first point to note in the table is that no single bank or coalition of banks offered to direct or manage the project over the coming months. Banks thought they should own the CIB but none were enthusiastic about committing share capital at this point. Several offered to join a group effort, but no banker stepped forward with the will or resources to take the lead. Even the Mongolian Bankers Association (MBA) declined to be in charge, since their current priority centered on getting the Bank Training Center transferred from the BOM to MBA auspices.

The second point is the evident lack of agreement on how soon the CIB should be turned over to the private sector. The timetable runs from "as soon as possible" to "maybe never." The central dividing line is between those who think the BOM should undertake all the improvements needed and those who believe the private sector could implement those changes faster and better. One IFI noted that a faster timetable may be forced upon them if banks with rapidly expanding loan portfolios experience a sudden rise in NPLs.

Table x: Summary of banks' position on CIB issues

Bank	Help lead CIB effort?	Shareholders in CIB	Users of CIB	Privatization timing
Anod Bank	Yes	Only banks, equal shares	Banks, NBFIs	Eventually
Capital Bank	No	Let stakeholders in a Working Group decide	Banks, NBFIs	Stay in BOM for now; safer & more reliable
Capitron Bank	Yes, "would be a very active partner"	As broad as possible; equal shares to start with, including MBA & BOM	Banks and NBFIs, other creditors later	Soon, not a BOM function
Golomt Bank	Active but not leading	Bankers, BOM, not MBA	Banks and NBFIs	Solve user problems first
Khan Bank	Probably not	Banks and NBFIs, equal shares	Banks and NBFIs	Soon
Mongol Post Bank	Yes	Commercial banks with equal shares	Commercial banks	Not clear
Mongolian Bankers Assoc.	No	Banks only	Banks and NBFIs	2007 after current operations improved
Trade and Development Bank	Probably not	Banks and NBFIs	Banks and NBFIs	Not yet, no credible private entity to run the CIB
Ulaanbaatar City Bank	Definitely yes	Banks and NBFIs, possibly MBA	All creditors	Need to solve current problems first; concerned about security of data in private hands, so BOM should retain control
XAC Bank	Probably not	Core group of creditors	Banks, NBFIs, MBA	ASAP
Zoos Bank	Probably not	Banks, BOM, MBA	All creditors	Soon

The issue of who the shareholders and the users should be does not appear to be a critical or deal-breaking matter. The bias is toward including more users rather than fewer, so that the data base will capture a larger pool of borrowers and have greater value to all creditors. The rationale behind these differing views is shown in the following two tables.

Shareholders/owners of a private CIB

Shareholder Composition	Rationale
Core group of banks, top five	Owners should be the primary users of the CIB
Mongolian Bankers Association	MBA has expressed interest in taking the role; it would assure bankers' interests are safeguarded
Largest banks and NBFIs	These are the most serious and reputable participants; they will bring new ideas and energy into the CIB
All creditors	Would make CIB unwieldy, cumbersome, quarrelsome at critical initial stages
Major banks + Mongolbank	Including the central bank brings credibility and strength to CIB and could help attract foreign investors

Members/users of a private CIB

User Composition	Rationale
Just large banks	They are the primary users and most experienced stakeholders in the financial system
All banks	Keep the CIB within the banking system
All banks and NBFIs	Will deepen the borrower data base
All creditors	Provides largest data base of borrowers

Although not shown in these tables, four of the ten banks plus the MBA believed the CIB should be run as a not-for-profit organization, serving the banks on a cost-covering basis only. When it was explained that information has a value and hence a market price and that private CIBs in the rest of the world do not operate on a non-profit basis because it does not encourage improvements or innovations, two of the five conceded the point, and two others diplomatically suggested that a Working Group could make that decision.

Timing of privatization

All respondents were asked about the wisdom of privatizing the CIB, and if that was a good idea, then when would be the right time. The table above shows the banks' position on this issue, but other respondents offered similar answers. In brief, there was no agreement on the timing for privatization of the CIB, with a majority suggesting the BOM should improve the current operations of the unit and then privatize it later, perhaps in early 2007.

A different group of respondents argued that the sooner the private sector takes over CIB operation, the sooner CIB output will be improved in terms of quality and reliability and the less the moral hazard of a central bank's being involved as owner and operator. The issues of CIB privatization, its timing and the process will be addressed again in Section V.

Let's look more closely now at the views of the non-bank respondents.

B.2. Views of other market participants

Mongolia's *non-bank financial institutions* (NBFIs) number 162 and are mainly registered small banks. They provide essential micro-finance services to a class of borrower needing smaller loans and having less collateral to pledge. The larger NBFIs in terms of borrowers and outstanding loans are larger than the smaller banks. Three of the NBFIs are members of the Mongolian Bankers Association and 26 of them have signed contracts with the BOM to provide and access data from the CIB. The BOM's Regulation on CIB excludes NBFIs from mandatory submission of borrower information because about 90% of all outstanding loans belong to banks.

The project interviewed seven NBFIs, resulting in a consensus on the following points:

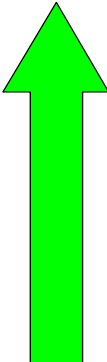
- The CIB will be very useful for NBFIs if it works properly
- The inquiry forms for the CIB need to be simplified; there is too much detail
- The current CIB needs faster and wider connection capacity
- BOM should require all NBFIs to be members to enrich the data base
- The CIB should be 100% private and for profit
- Allow all creditors as users but let the big banks be shareholders
- An inquiry fee is fine but not a membership fee
- Next steps: interested banks should sign a MOU and interested investors should sign a letter of intent
- The bigger commercial banks should prepare a business plan for the CIB
- Ideally there should be two or three CIBs so there is no monopoly of information
- We will need to educate the public since there is no culture in Mongolia of paying for information
- The Association of NBFIs would be willing to take an active, if not leading, role in creating a private CIB.

The *Mongolian Bankers Association* (MBA) was established in the early 1990s and has 19 members (16 commercial banks and 3 NBFIs). Its mandate is to help improve the legal environment and improve coordination among banks. The MBA expressed an interest in taking the CIB under its own wing as early as next year because they saw the current one as “inefficient, heavily subsidized and not timely.”

The MBA had one of the most market-based approaches to the CIB of all those interviewed. For example, the Executive Director said it is crucial for the CIB to (a) start charging fees in order to cover their costs, both operational and investment, and (2) put together financial statements on its operations in order to justify fees and later attract investors. The MBA was the only entity to suggest a scale of inquiry fees depending on the depth of information wanted on a borrower. The scale might contain these services and associated fees.

The graduated inquiry fee

	<i>MNT</i>
• Monitoring certain borrowers	10,000
• Credit scores based on a weighted formula	4,000
• A broader D&B-type credit report	2,000
• Fraud detection	1,000
• Access to the “black list” of bad borrowers	600
• Deeper into a borrower’s payment history	400
• Basic minimal information on the borrower	200



The consensus of the members of the MBA was that their association was incapable of owning and operating a CIB and has no past record of achievement but that it should have some role, perhaps as a forum for stakeholders to discuss the issues.

Banks and NBFIs are obvious candidates for membership in a CIB, but there are non-financial creditors in Mongolia who are interested in membership as well, assuming laws permitted it. Two non-financial companies were interviewed, a heating company and a cellular service provider. Neither was a member of the CIB, but both were enthusiastic about the services offered and expressed interest in being a member in the future since it would help them solve their problems with customer arrears.

A senior representative from a *heating company* said, “This is very, very important for our company, since some 40-50% of our 4,000 customers do not pay their monthly utility bill.” The company wastes a lot of time following up on customer delinquencies. If they had a CIB data base to tap into, they could vary their contracts with customers, forcing some to prepay, requiring large deposits for bad customers, and offering short-term or long-term contracts depending on creditworthiness. He would certainly be willing to pay a fee for this improved cash flow.

The *cellular service provider* has 120,000 customers, mainly pre-paid, but those with post-paid accounts haven’t paid for three or four years, resulting in arrears of more than \$100,000. With a CIB they could price their packages differently or require a larger deposit or simply tell the customer he/she has to be pre-paid. They would willingly pay fees for this information.

The BOM has stated its willingness to include information from and share information with utility companies, but at present they do not have any central data base, according to BOM.

C. Problems and solutions

Despite the quite favorable perception of the CIB and a unanimous agreement on its value, it was no surprise that bankers found many areas where improvements were needed. The consultant interviewed the ten largest banks and recorded their problems and suggestions, most of which revolved around these matters: software and security issues, improving the electronic linkages between the CIB and all banks and their branches, and making the data more current through more frequent updates.

The consultant presented the results of the survey to the BOM. The Head of the Supervisory Department, who oversees the CIB, agreed that most of these problems were real, although some were incorrect due to misperceptions or incorrect information from lack of training at the commercial bank level. The second column in the table below lists the solutions suggested by the consultant and the banks.

The BOM assured the consultant that the solutions to most of the problems are already under way, and such matters as high-speed connectivity between participants could be resolved using a fiber-optic network in place by October 2006. The Head of Supervision expressed the hope that EPRC will devote some resources to monitoring progress in these areas, because the sooner the problems are fixed, the earlier the pressure will build from the banking sector to move ahead with privatization.

D. The CIB and weaknesses in the banking sector

With 16 banks and more than 100 NBFIs competing for a limited market for banking services in Mongolia, competition is very strong. Financial institutions compete to gather deposits and to expand their market share. Consequently, deposit and loan growth in recent years have risen rapidly. For example, total assets of the banking system grew by 77% in 2003, by 30% in 2004

and by 36% in 2005, more than twice as fast as nominal GDP growth. All the associated market and credit risks have grown accordingly.

Official Bank of Mongolia statistics show NPL ratios in the moderate 4.7% to 6.0% range for these years, but these numbers must be viewed with skepticism, for four reasons.

1. Top commercial banks, e.g., Khan Bank, calculate the ratio significantly higher, e.g., 8.4% as at March 2006
2. Official definitions of “non-performing” and past-due loans have been relaxed recently, thereby reducing reported NPLs
3. The denominator of the ratio (total loans) is growing rapidly as the charts show
4. Banks are known to understate or re-categorize NPLs by rolling them over or capitalizing interest past due.

Hence, an element of uncertainty hangs over the extent of credit risk in the banking system. Adding to known financial imbalances is an additional element of risk: creditors in general suffer from a lack of audited accounts and have difficulty verifying a borrower’s reported income and/or assets, which in many cases may be understated in order to avoid tax liabilities. Companies are widely known to keep several ledgers of accounts for different purposes. Given the lack of reliable information about borrowers, bankers naturally keep both their lending rates and collateral requirements high to offset the high level of uncertainty. In mid-2006 average deposit rates were 15-16% and average loan rates were 28-30%, producing a very wide spread reflecting the asymmetry in information.

Compounding the uncertainty about the extent of credit risk imbedded in the banking sector is the belief by bankers that Mongolbank will step in and rescue them in case of crisis, as happened with Khan Bank in 1999. Mongolbank has contributed to the moral hazard by stating “no bank will fail in Mongolia,” rather than making a statement, as a supervisor should, about the soundness of banks operating in Mongolia.

Problems with CIB and how to resolve them

Problems that banks are having with CIB	Ways to resolve the problems
The time gap of one month between updates; therefore info is not current, complete or correct.	(i) Reduce mandatory updates to two weeks, later one week, then every day as IT improves. (ii) Allow banks to send basic update info on daily basis, the full update info every two weeks.
Incompatible formats and systems; delays and glitches, slow or inaccessible connections.	Software problems being addressed by supplier; do everything via high speed internet.
Branches unable to link directly with Mongolbank or with Mongolbank's branches; going through HQ means delays and more human input errors.	Interface with banks being addressed by Mongolbank's IT Dept., need LAN; allow Excel to be compatible with CIB software.
Borrower data insufficient; need more on debtor's other liabilities; need income verification, proof collateral has been pledged only once, and bankruptcies.	Modify or update software to contain more data fields, such as tax arrears and type of collateral; give access to Mongolian Assets Recovery Agency.
Too much data required on CIB input forms, resulting in wasted time and data entry errors.	Forms should be simplified, requiring only name of borrower, registration number, loan amount, when issued and when due, nature of collateral and where located, and classification of the loan.
Number of misperceptions re CIB: it is understaffed, heavily subsidized and allows some banks not to report loan data.	CIB needs to educate users in order to increase their confidence in the system.
Concerns about info security at CIB and if government agencies or the politically influential can access CIB data.	CIB needs to educate users regarding policies, rules, permitted access and firewalls.
Possibility that banks can avoid reporting bad borrowers to CIB in hopes the debtor will go to another bank to get a loan and then repay the first bank.	Better coordination between onsite supervisors and the CIB data base.

The banking sector has a number of fundamental weaknesses that have been pointed out in prior studies of Mongolia's financial sector. However, as we will see, a properly functioning CIB will help alleviate these over time. The following list of weaknesses comes from an appraisal document on Mongolia's private sector produced in June 2005 by the International Development Association, a branch of the World Bank Group¹:

- 1) High lending risks where borrowers rely on high leverage
- 2) High levels of explicit and implicit bad debts
- 3) The short-term nature of banks' funding sources

¹ "Mongolia: Second Private Sector Development Credit Project: Project Appraisal Document," the International Development Association, June 2005, page 2.

- 4) A weak culture for honoring debt and penalizing those who default
- 5) Weak institutional capacity for credit risk and project analysis
- 6) Gaps in the legal and regulatory framework

The IMF's Article IV Consultation with the Government of Mongolia in the 4th quarter of 2005 reinforced apprehension about the vulnerability of the banking sector. The Article IV report points out on page 11 that "high credit growth and remaining weaknesses in supervision and enforcement of prudential rules" are worrisome and goes on to suggest that the quality of bank portfolios might even be worse than reported, especially since there are so many unreported rollovers of problem loans. Internal controls and technical capacity at the banks are lacking. Five banks have failed since 1996.

Most banks do not have independent boards of directors, some have unknown shareholders, and some are owned by business groups as a funding vehicle. Many banks (except those with some foreign ownership) do not see the value in spending resources to improve transparency and accountability. They do care about market share and expanding their loan portfolios.

The savings and credit cooperatives

Attention is now focusing on the savings and credit cooperatives (SCCs), which have attracted a lot of funds in recent months by offering higher deposit rates than the banks. Some of them became rapidly liquid and then paid off early investors, in what appears to be a Ponzi scheme. The risk lies in the unknown extent to which banks and NBFIs have placed deposits in SCCs and in the latter's shaky and opaque financial accounts. There is no deposit insurance in Mongolia, so depositors, including some large banks, are likely to lose money from their SCC placements. A number of the country's 845 registered SCCs have failed already.

The SCCs are in a regulatory limbo as Mongolbank no longer oversees their operations. The new Financial Regulatory Commission (FRC) set up in February/March 2006 has assumed the regulatory responsibility, but the consensus among respondents was that the FRC, given its political and non-financial composition, is not capable of responding to any emergency.

Both central bankers and commercial bankers at senior levels are aware of all these conditions and are convinced that an upgraded CIB, whether publicly or privately owned, will help relieve the stresses building up from these circumstances. The consultant emphasized the positive effects of introducing a credit information bureau into a financial system, as shown in the table below.

Banking sector Weaknesses	Effect of introducing a CIB
High NPL levels (explicit and implicit).	Will reduce NPLs, increase profitability and generate more internal capital.
Weak credit culture.	Will promote honoring of obligations and penalizing of defaulters.
Many banks and NBFIs lend to fragile and non-transparent SCCs.	Will reduce the incentive to lend to risky entities.
Weak transparency and poor governance practices.	Will promote greater transparency in financial accounts and reduce access to funding for the non-transparent.
Because of structure of economy, bank loans are seasonal, cyclical and of short tenor.	Greater borrower info and transparency could open up new lending opportunities and products.
Relatively high interest rates due to credit risk premiums, high NPLs and lack of collectible collateral.	With more competition for good borrowers and more information on all borrowers, rates should decline.
Lack of reliable financial information about borrowers; hence, reliance almost solely on real estate as collateral.	With increased knowledge of debtor characteristics and more transparent financial accounts, bankers should be able to rely more on loans backed by inventories or receivables.
Lack of term funding sources.	With more confidence in their lending decisions, banks can offer longer term loans.
Insufficient IT infrastructure.	Will encourage banks to upgrade IT in order to have access to the CIB's data base.
Staff untrained in risk management.	Will encourage lending officers to discriminate more carefully among potential debtor/clients and to price risk accordingly.
Information and judicial asymmetries*.	Will increase the amount of data available on borrowers so that creditors can make more informed decisions, which will reduce the foreclosure burden on courts and the incidence of bribery.
Few banking products to attract clients.	With less credit risk to worry about, banks can diversify their product lines, e.g., to credit cards, mortgages.

* "Judicial asymmetries" is a euphemism for a court system characterized by bribes, delays, and judicial officers inexperienced in commercial matters. Given this environment, banks must protect their assets by loaning only up to only a certain amount of the estimated value of the collateral (e.g., 60%). Collateral is almost always in the form of immovable property, which is difficult to realize in case of default on the loan, so banks over-collateralize as a hedge. For their part, borrowers have only limited physical collateral to pledge, so they engage in dubious practices such as double pledging and creating shell companies to perform the borrowing.

Introducing a CIB will not be a 'quick fix' for the problems shown, but over time it will help increase transparency, remove a degree of uncertainty from the banking system, and provide the basis for improved assessment of credit risk.

SECTION III: THE LEGAL AND REGULATORY ENVIRONMENT

A. Overview

The economy has become market-oriented since 1991, but ways of thinking are apparently taking longer to adjust. The survival mind-set adopted by Mongolians in the Communist era fostered an attitude of non-compliance and disdain or fear of authority. It also cultivated a cash economy with a scanty history of keeping valid records or documentation.

The lack of suitable and legally binding records has an obvious consequence for creditors and debtors. Because many borrowers have difficulty proving their income, creditors must charge higher rates or over-collateralize to offset the credit risk. (The matter of people purposely understating their incomes to avoid the tax authorities is another issue, but one that needs amelioration if a CIB is to function properly.) As long as this information gap persists, uncertainty and thus interest rates will remain high and act as a constraint on credit expansion and investment.

Another aspect of the legal environment affecting lending and credit information was highlighted in a recent EPRC report. Mongolian tax laws do not promote a transparent picture of a business's financial performance and health, so banks are leery of lending.

There is no privatized land, and most collateral is non-perfectible which provides lenders very limited recourse for security on a loan. Consequently, banks will usually only rely on apartment titles as collateral. Businesses commonly maintain three sets of books (one for the bank, one for tax purposes, and one actual set of accounts), and banks consider many loans, particularly for longer terms, too risky due to the level of opacity of financial information. 2

From a broader perspective the Mongolians have adopted the German model of a legal system, whereby laws are normative and general while regulations and implementation are delegated to the ministries. The national courts have taken strict interpretations regarding the intent behind this legal framework, construing it to mean “whatever is not explicitly allowed is prohibited.” The consequence for credit information flows is that rulings and regulations can be contradictory and innovation tends to be cautious.

In addition, the same EPRC report³ and other studies have pointed out that the judicial system poses a large constraint to the banking sector because it makes foreclosure much more difficult than it should be. There is no registry of liens on movable property and a proposed new law on non-judicial foreclosure was declared unconstitutional. The court system, according to most of the lender interviewees, is challenged by limited capacity, corruption, and judges ill-informed about market economics. It takes up to one year to foreclose on a loan, if the bank is successful at all.

B. Existing laws affecting credit information

As the market for mortgages and credit cards grows in Mongolia, the demand by creditors for more information on borrowers will rise concomitantly. Existing laws may not be appropriate for the information sharing that is necessary in a burgeoning credit environment. This section addresses how the current legal and regulatory setting shapes the operating environment for

² Economic Policy Reform and Competitiveness Project, “Feasibility Assessment of Using USAID Development Credit Authority Guarantee Products to Stimulate SME Term Lending”, December 2005, Section II, page 3.

³ Ibid., page 3.

both the current CIB and a future one. We focus on issues of privacy, information sharing and privatization.⁴

The Constitution of Mongolia. Article 16 of the Constitution of Mongolia states that one of the privileges of Mongolian citizens is “the right to seek and receive information,” with the sole exception being State secrets relating to national defense and security. The importance for the CIB is that any new CIB law must explicitly (a) state that CIB financial information on debtors is not a “state secret” and (b) permit citizens to inquire after their financial records at the CIB with the implied right to correct mistakes.

Civil Code. Article 21 of the Civil Code is titled “Protection of name, honor, dignity and business reputation.” Paragraph 21.4 states that citizens are entitled to some form of compensation if their personal and confidential information is disseminated without their consent. “Consent” is the operative word. Banks and other creditors, for the sake of self-protection, should insert a clause in their loan documents stating that by signing the loan application, the applicant is consenting to the submission of his or her financial and debt information to the CIB and thence to other creditors.

Banking Law of Mongolia. Article 7 prohibits the release of information by bank officers of any information considered by the bank or its customers to be confidential. Exceptions are made under certain conditions, such as

- with the written consent of the person about whom the confidential information relates
- on the demand of the Bank of Mongolia
- on the request of governing authorities of courts, prosecutor's office and police due to their work requirements.

For a credit information bureau, paragraph 3 of Article 7 is critical, for it states that these confidentiality requirements are “inapplicable to inter-bank information on loans disbursed by a bank.” However, there is still a bit of ambiguity in these words, since the exception refers to “inter-bank” information, not necessarily to (a) information disbursed by a custodian of financial intelligence such as a CIB, (b) information supplied by or to NBFIs, or (c) information supplied by or to other potential CIB users, such as utilities.

Commercial banks can and do share credit information among themselves. There is no privacy law or articles in the Banking Law that prevents sharing of “commercial secrets.”

Law on Central Bank (1996). According to Article 4 of this law, the main objective of the BOM is “to ensure stability of the tolog.” Within this objective the BOM is required to maintain “the stability of money, financial markets and the banking system.” There is nothing mentioned in the Law about maintaining a credit information bureau or assisting commercial banks to reduce their loan losses. This obligation was assumed by the BOM in the mid-1990s under a special regulation (next paragraph). Thus, the BOM and the commercial banks are both on solid ground in stating that the central bank should concentrate on banking system stability and allow the private sector to undertake CIB activities.

At the same time, there is a loophole in Article 23 of the Law on Central Bank. Paragraph 2.2 permits the BOM “to acquire and hold shares in legal entities that have direct relevance to deposit insurance,...monetary policy implementation and banking data processing...” This provision would arguably allow the BOM to purchase shares in a privatized CIB.

Mongolbank regulation on CIB. There appears to be nothing in the official Regulation on CIB that will hinder or prevent the eventual privatization of the CIB. Neither the subject of privatization nor any future shift in the CIB’s status is mentioned in this Regulation. There is

⁴ Qualified counsel should review these interpretations

no reference to the need to amend the Regulation to provide for a shift in CIB ownership or operation.

As the BOM is currently responsible for CIB operations, it would be appropriate for BOM to participate (if not take the lead) in drafting a Law on Credit Information Bureaus for parliamentary consideration. (Additional legal steps for the BOM are recommended in Section V.) The Head of the BOM's Legal Division said, "There are no big barriers to privatizing the CIB and any small barriers can be removed along the way."

Company Law (1999). All companies in Mongolia are subject to this law, unless explicitly provided otherwise by other laws. A new private CIB will be subject to the Company Law unless a separate CIB law is passed or the Banking Law is amended to state otherwise.

Articles 2.3 and 2.4 relate to the applicability of the Company Law and to the laws governing the activities of *privatized* companies. What needs to be determined for our purposes is

- 1) Whether the CIB is "owned" by the BOM and whether the CIB is legally an SOE or just a creation of the BOM by regulatory fiat,
- 2) Whether the process of "turning over" the CIB to new non-state owners will be defined as a privatization process, and
- 3) Whether the State and Local Property Law applies to any aspect of the privatization process, such as the sale of assets, or to any aspect of the new entity, especially if the BOM retains or purchases a share in the private CIB.

Article 3.1 defines a company as "a legal person whose capital is divided into shares, that has its own separate property, and that has as its primary purpose the making of profit." A minority of interviewees at the commercial banks stated a preference for a private CIB to operate as a "not for profit" entity, which would mean a wholly different legal status. The tax and financial implications of this status need to be discussed at a stakeholders' meeting. Most banks preferred that a private CIB take the form of a limited liability company governed by its own charter.

Article 11.2 of the Company Law states, "In the case of a company created as a result of privatization, the State shall be deemed to be the founder. [As such,] subscriptions for the shares of such a company...shall be governed by the State and Local Property Law." The intent and applicability of this article need to be clarified in the case of the CIB. To the extent that a private CIB can be governed by (a) its own Law on Credit Information Bureau or (b) by the Company Law, rather than the State and Local Property Law, the clearer the CIB's mandate and responsibilities will be and the less risk from moral hazard.

Law on Deposits, Payments and Settlements and Lending Activity (1995). Article 23 requires banks to keep records on all those who borrow from them. Banks must create and maintain files on each borrower's loan application, loan agreement, collateral, business plan, and "information about a borrower's loans acquired from other banks or outside sources," such as a CIB. Thus, banks are required to maintain the kinds of data that feed into a CIB data base.

Personal Privacy Law (1995). This law is not available in English, so these comments are based on a translation provided by EPRC staff. The Privacy Law contains several articles that may be problematic for a new CIB. Article 2 of this law defines the concept of privacy (in part) as referring to information or documents of a citizen that are confidential and may damage a person's name, reputation or legitimate interests in case of disclosure.

Article 4, in particular, specifies "family privacy" as protected by the law, which is meant to include disclosure of "information that may run counter to the reputation and interests of an individual and his/her family members." A borrower's payment or non-payment record

obtained from the CIB could have the effect of damaging his or her reputation, if disclosed publicly. If this individual's CIB data were disclosed only to a qualified member of the CIB, as opposed to the public, then this provision may not apply. In any case, elements of this Law need to be amended or explicitly addressed, preferably in a separate CIB Law.

Article 5 contains more language that needs clarification. It states: "An entity which has acquired personal private information by law or authorization is prohibited from disclosing it to others." This sentence appears to say that even if a CIB under its own law acquires a person's debt-payment records from commercial banks, the CIB cannot disclose them to others such as CIB user/members.

Organization Confidentiality Law (1995). This law defines an "organization" as any legal entity or any public or private body that is registered. It could be a state-owned entity, a commercial body, a religious group, a political party, or an educational institution, to name a few. Any new CIB would need to be registered and would fall under the ambit of this law. Article 3 of this law will require some clarification with respect to a CIB because it refers to information within an organization that is defined as confidential so that the rights, honor and reputation of individuals are protected.

The **Law on State Secrets (1995)** does not appear to have any relevance to a credit information bureau, as the provisions deal with national security issues.

C. The need for a separate CIB Law

Given the broad legal framework in Mongolia and the lack of clarity with regard to which laws will apply to a future CIB and when private information sharing is permitted, the necessary conclusion is that a separate CIB law should be passed. It would provide clarity and protect stakeholders; it would define precise and specific delegations of rights, boundaries and allowable practices; it would help legitimize and accelerate the process. Clear-cut limits of liability will protect the company from lawsuits that could arise when a defaulter sues the CIB because his reputation has been sullied by the information contained in the CIB data base and released to creditors. With existing gaps in the laws, the CIB could be held liable for errors in processing.

Litigation could also arise regarding the accountability of commercial banks for sending incomplete, untimely or false personal information to the CIB. To prevent the stifling of credit expansion, creditors need to be protected from judicial interpretations of vague laws that in the past have resulted in creditors' claims being denied. For example, there have been occasions where defaulters have used the broad provisions of the Organization Confidentiality Law to convince courts that they are exceptions to this law, thereby avoiding payment of their obligations.

However, the consensus among a number of authorities is that it is easier and faster to amend a number of laws in Mongolia than it is to get a new one passed. Thus, the Head of Supervision at BOM recommends amending, among others, the Law on NBFIs to require them to report to the CIB and amending the Law on Deposits, Payments and Settlements and Lending Activity to include NBFIs.

Nonetheless, the recommendation of this study is that the Parliament of Mongolia should pass a new Law on Credit information Bureaus where issues such as the security, confidentiality, accuracy and trustworthiness of information are addressed and the legal rights and duties of all stakeholders are defined. While amendments to existing laws might expedite the creation of a CIB, it would not be in the CIB's long-term interest or commercial safety to leave a gap in the legal framework.

Section V elaborates on this recommendation, while the box below lists the components of a CIB law that have proven effective in other countries. Further technical assistance would be welcome to shepherd such a draft law through Parliament.

Essential components of a CIB Law

The function of a credit information bureau and the principles under which it operates.

The kinds of institutions that may be shareholders and/or members. Authorization for new members to join the CIB in the future, both financial and non-financial credit providers, such as insurance companies, utilities and the retail industry.

rDefinition of the *sources* and *users* of the personal and business information and the associated payment data. The sources are financial institutions, consumers and businesses, and the users are private sector creditors, including financial institutions and insurance companies. The Law may state if government entities may be sources or users, or leave this unspecified.

The types of information permissible for a CIB to collect and distribute. For example, the name and personal ID number of the borrower, passport number, past and current residence addresses, marital status and name/age of spouse, bankruptcies, payment record (including disputed and delinquent amounts), accounts both open and closed, etc. The duration that a person's credit history should be maintained in the records.

Restrictions on access to the data by governmental authorities, such as, no access unless a court order is issued. However, the permissible uses of the credit information should not be too strictly defined in order not to stifle evolution of the service.

The obligations, responsibilities and rights of the CIB, of the sources of information, of the users of information, and of the subjects of the information.

Responsibility for accuracy of submitted data, mechanisms for testing accuracy of data, and procedures in case of a dispute on completeness or accuracy of data.

Procedures for the creditor to notify the CIB if a legal or physical person is late in a payment or has a delinquent account.

Notification of the subject of a credit report if adverse action has been taken as a result of the report, such as denial of credit or denial of employment.

The right of the subject of a report to request a copy of the data in their file and the sources of that information, the names of requesters of a report on them in past one (?) year, and a summary of the subject's rights.

How disputes will be resolved through arbitration or the court system.

SECTION IV: PROSPECTS FOR A PRIVATELY OWNED CIB

A. The right conditions and timing

Before evaluating the prospects for a Mongolian credit bureau owned and operated by private interests, it was important to familiarize members of the financial community with the benefits of such an entity and to discuss the necessary financial infrastructure and timing for privatization. Thus, we started with several questions:

- Why should a private CIB be established?
- Are the right conditions in place?
- Is the timing right for a private CIB?

The question of whether a private CIB should be created in Mongolia when there already exists one in the central bank was answered by showing participants that the functions of the two differ. Public sector CIBs focus on regulation and supervision of banks and thus are not designed to distinguish good and bad borrowers at the micro level. Public CIBs use the data sent to them monitor systemic risk and to help guide banks with the loan loss provisioning. The function of a central bank is to foster banking sector stability; helping commercial banks reduce their loan losses is a diversion of resources.

A private sector CIB, on the other hand, is designed to distinguish good and bad borrowers at the individual and SME level, thereby having a broader impact on the savings and investment in the real economy. Moreover, a profit-oriented CIB has more incentive to improve its IT systems and services than a public sector one. A more efficient CIB helps lenders save time and money by reducing the time needed to make credit decisions. With a larger data base of borrowers and continually updated software, a private CIB can uncover fraud and errors more easily than a public CIB and can provide a larger variety of services.

The right conditions

While some of these notions were new to bankers in Mongolia, they intuitively understood the logic and were ready to accept these additional reasons to support their view that it was time to “graduate” to a more efficient CIB. With momentum for creating a private CIB quite evident, the next step was to determine if the right conditions were in place to support the CIB and to help sustain it over time. The results of all the interviews showed that

- Virtually all banks and large NBFIs support the idea of a private CIB, which provides the potential for a solid core of users and investors
- The CIB will have BOM backing and experience to get started
- There is a unique identifier for individuals and companies so confusion over names and spellings are greatly reduced
- There are no major barriers or explicit laws standing in the way
- Foreign technical assistance and technology are available.

Timing for establishment

The matter of timing naturally arose, with some banks arguing that a private CIB should be established and registered as soon as possible while others wanted the current problems to be resolved first within the existing CIB with privatization to come later.

The debate, which was not fully resolved during this consultancy, centered on the following arguments. Those in favor of immediate creation of a private CIB argued that:

- Commercial bankers are eager to get involved and we should not waste this opportunity

- Basle II will soon require banks to manage credit risk better and a CIB will assist
- Retail demand for loans and credit cards is growing so that banks will soon have an even greater need for customer payment data
- Other countries in the region have CIBs, so we don't have to "re-invent the wheel" (see Annex B)
- Foreign investors looking for local partners will need CIB information
- It will be easier to start now with less data than later with more data
- The current CIB activity is a diversion from BOM's primary tasks of monetary policy & supervision
- The sooner we introduce one, the sooner the financial system will evolve in the right direction.

Supporting this position of "sooner rather than later" are some financial data that the Supervision Department of the BOM produced at the consultant's request. The data (see Annex E) are meant to be pro forma financials for a putative CIB. The first spreadsheet shows a hypothetical income statement for the current CIB. Revenues depend on the number of inquiries per month and the price of each inquiry. Starting with a realistic estimate of about 13,000 bank and NBFI inquiries per month and a price of MNT 200 per inquiry, a revenue stream is generated.

Then given various assumed operating expenses, such as salaries and rent imputed to existing operations at the BOM, we find that at the MNT 200 fee level the CIB breaks even. When more market-based inquiry fees of MNT 500 and MNT 1,000 per inquiry are entered into the spreadsheet, the CIB earns a profit of MNT 3.7 million and MNT 10.3 million respectively per month. Under the MNT 1,000 assumption, a net income of MNT 123 million (\$105,300) per year is generated. Hence, with reasonable inquiry fees, the existing CIB would already be profitable, adding fuel to the argument that it should be privatized soon.

These statements need to be tested and the second spreadsheet in Annex E permits that. It provides a forecast of after-tax profits for the next seven quarters (through 2007) based on a number of assumptions that are spelled out. The model derives a net present value of the CIB business which varies depending primarily on the growth in inquiries and the charge per inquiry and much less on variables such as inflation and the assumed tax rate. This type of analysis should be refined by a working group set up to discuss all issues. (See the recommendation in Section V.)

However, those wishing to delay a CIB's introduction raised these points:

- Data bases on persons and businesses are limited in time, depth and accuracy so let's make them deeper and more accurate first
- There is no obvious and credible private sector leader of a CIB effort yet
- The appropriate IT structure is not fully in place
- The introduction of a CIB requires an extensive education campaign aimed at the financial sector as well as consumers and businesses
- The appropriate legal framework is not in place.

Supporting this position of "later rather than sooner" is the matter of institutional gaps. CIBs do not operate in a vacuum; they cannot just be created without supporting infrastructure. A CIB is like a fine-tuned mechanism that has many moving parts that must act together for smooth operation. A private CIB in Mongolia will most likely not be able to provide profitable or sustainable service if the following components are missing:

- Movable and immovable property registries
- An effective non-judicial foreclosure law
- Laws on deposit insurance, privacy and holding companies
- Independent and impartial judicial system
- Up-to-date IT to ensure accuracy and real-time access to data.

Participants understood why each of these elements was critical to a CIB's smooth operation and admitted they were missing in the Mongolian setting. The CIB stakeholders (BOM, large banks and NBFIs) individually may have little influence on the creation of these elements, but together they can exert pressure on the authorities to produce the right environment.

B. Impediments to a private CIB

Discussions with key stakeholders as well as independent observers in Ulaanbaatar uncovered additional issues embedded in the Mongolian social, economic and political environment that will affect the success of a private credit information bureau.

These issues are divided below into a set of constraining factors and a set of facilitating factors. Most of the constraints are broad generic conditions outside the immediate control of any Working Group that is formed, e.g., the large shadow economy and lack of experience in Western commercial and governance practices, while most of the facilitating factors are ones the Working Group can encourage, such as the large element of existing support among creditors for a more efficient CIB. This list consolidates some points made earlier.

Constraining Factors

- The legacy of the communist era, which for decades placed bureaucratic obstacles to innovation, encouraged corruption due to lack of transparency, and fostered a state interventionist and monitoring mentality
- The lack of experience in accepted Western commercial practices and ethics, and the absence of a credit tradition and a sense of repaying debt obligations
- A judicial system that does not always adjudicate impartially or protect creditor rights, forcing banks to overcollateralize
- An environment of weak property rights, uncertainty caused by unaudited financial accounts for legal entities, and difficulty in enforcing contracts keep interest rates high as well
- A large shadow economy based on cash that diverts funds from the banking sector
- Strong family and business group loyalties that undermine meritocracy and impartial administration resulting, for example, in pressure on creditors to lend to relatives and friends rather than at arms-length based on credit factors
- Many savings and credit cooperatives (SCCs), in which banks and NBFIs have placed an unknown amount of deposits, are starting to implode under the stress of scandal and non-transparent accounts. The SCCs are not well regulated, and the high degree of uncertainty about their future could produce a shock to the financial system; the head of the new Financial Regulatory commission with the mandate to oversee the SCCs was assassinated in late June 2006 by the head of one of the large SCCs.

C. Corruption as a constraint on a CIB

Many of the constraining factors above imply a non-transparent environment where corruption can flourish. The Asian Development Bank and the World Bank, as well as other foreign donors, have noted that the enforcement of existing laws and regulations is inadequate in Mongolia, partly due to a poorly functioning judiciary and partly due to high-level corruption,

particularly in the tax, customs, procurement, land registration and judicial arenas. This situation is present in many transition economies attempting to re-structure their political and economic systems after decades of communist overlay and misdirection.

Wherever it occurs, corruption has corrosive effects on the economy, such as a misallocation of resources, the masking of underlying conditions in the real economy and financial markets, inaccurate budgetary and balance of payments data, incomplete and misleading financial reports, and the weakening of competitive forces in the banking sector. In Mongolia there is no effective anti-corruption legislation in place or anti-money laundering law.

A recent report by the World Bank⁵ on promoting investment and job creation in Mongolia stated bluntly that “Corruption and the lack of transparency and accountability in government-business interactions that allows corruption to flourish are the central impediments to the development of a robust and dynamic private sector in Mongolia.”

Combined with Mongolia’s limited experience with market-oriented private sector activity, new companies, such as a CIB, face obstacles to building a credible reputation that lenders, borrowers, and investors can trust. For example, on two separate occasions, U.S. Ambassador to the Mongolia, Pamela J. Slutz, addressed this issue in public: “Surveys conducted by credible international organizations over the past five years and anecdotal evidence indicate that corruption is not only perceived to be—but is—a growing problem in Mongolia. In 2004, for the first time since 1999, Mongolia was included in the Corruption Perceptions Index conducted by the international NGO, Transparency International. The survey indicated that corruption is perceived by Mongolian citizens as a growing and widespread problem: in 2004, Mongolia ranked 85 of 145 countries – with an index of 3.0 (out of 10) – putting it near or in the “rampant” category.”⁶

The second occasion was in a lecture in Ulaanbaatar⁷ in June 2006, in which she wondered, “Why hasn’t the Mongolian economy taken off?” given \$2 billion in foreign assistance since 1991 and some \$250 million in remittances annually from Mongolians working abroad. Corruption and lack of domestic access to finance were two of the several reasons she cited.

Interestingly, the relevance of these comments to this project is that a private CIB has the potential not only to be constrained by these two conditions but also to contribute to their gradual demise.

Several interviewees in the current study expressed concern that the “wrong people” might have access to the CIB’s data base, meaning powerful people with links to political parties or ministries. In Mongolia it is assumed that Government officials are able to get what they want even if prohibited by law. In fact, as one lawyer expressed it, “One of the legacies of the communist period is that people ignore the law or try to find ways around it. People still believe the state has the right to control everything and people have the right to disobey.”

Respondents alleged that influential families and shareholders in the banking sector are known to have “special rights” that do not equate to an arms-length transaction and are not recorded in a transparent way. Whether true or not, any real or perceived corruption in the banking sector will affect the flow of accurate information and thereby the growth and sustainability of a CIB. Whether publicly or privately owned and operated, a CIB cannot survive, let alone prosper, in the environment suggested in the table below.

⁵ “Mongolia: Promoting Investment and Job Creation,” The World Bank, June 14, 2006, page ii.

⁶ From the speech “United States-Mongolia Relations: A New Era of Comprehensive Partnership” by Ambassador Pamela J. Slutz, U.S. Ambassador to Mongolia, Washington, D.C., April 6, 2005.

⁷ Lecture at the National University, June 8, 2006, quoted in *The Mongol Messenger*, June 14, 2006, p. 5.

The Effects of corruption on a credit information bureau

The effects of corruption	The impact on a CIB
Engenders distrust of institutions	Wariness toward banks fosters informal lending and restricts banks' deposit base.
Users worry about data safety	Fears of unauthorized access to CIB data base by powerful individuals will undermine confidence in the CIB.
Money stays outside the banking system	Cash transactions avoid intermediation in the formal banking sector and hence credit risk assessment.
Creditor recourse to courts is discouraged as defaulters bribe judges	Creditor assets put at risk, resulting in higher loan rates, discouraging credit expansion and CIB development.
Less compliance with international norms and practices	Development of a credit culture retarded.
Money laundering and illegal activities	Reinforces "grey" economy; banking sector circumvented.
Altered data banks and financial reports	A disincentive to cheating and false accounting.
Discourages domestic and foreign investment	Limits economic growth and money flows through the real economy.

These perverse effects of corruption on a CIB may be mitigated substantially if (a) appropriate anti-corruption and anti-money laundering laws are in place and are implemented, (b) the CIB's IT and security systems are state-of-the-art; and (c) CIB staff are trained well with severe penalties for breaches of confidentiality or security. A properly-drawn Law on Credit Information Bureaus would go a long way toward minimizing the operational risks posed by corruption. Such laws have been passed recently in Kazakhstan and the Kyrgyz Republic and could serve as initial models for a Mongolian version.

D. SME lending and a CIB

The DCA Report mentioned earlier lists a number of roadblocks facing SMEs when they seek access to credit from banks, such as high interest rates (25-33% annually) and collateral requirements. The report makes the point that a "credit reference information service" would help ease these barriers. The table below helps explain how a CIB will help reduce the barriers cited. Note also that the constraints to SME access to credit also apply to the capacity of the financial system to create and sustain a commercial credit bureau.

SME lending and the CIB

Constraints to SME access to credit*	How a CIB will help
Lack of information on SME borrowers	A CIB will contain a broader & deeper SME data base.
Limited capacity of banks to analyze SME borrowers properly	CIB information and reports will give creditors more tools to mitigate risk and price loans more appropriately.
High interest rates	With more reliable data on borrower payment history, uncertainty will be reduced and rates should decline.
High collateral requirements	With more borrower data, credit risk will decline and less collateral should be needed.
Dearth of funding sources for SMEs	Better SME borrowers should find willing lenders.
Lack of term lending	CIB will make market more transparent, making lenders more confident about longer-term credits.
Non-transparent ownership of SMEs	Will become clearer with more CIB users deeper data base.
Opaque financial statements of SMEs	A CIB will help persuade SMEs to clarify their finances if they want funding.

* Factors enumerated in the EPRC Report entitled “Feasibility Assessment of Using USAID Development Credit Authority Guarantee Products to Stimulate SME Term Lending,” December 2005, pp. 22-24.

E. Facilitating factors for a CIB

Despite all the obstacles cited above, a number of conditions exist that will facilitate the success of an eventual private sector CIB:

- As bank lending has expanded rapidly in recent years, NPL's become more of a problem, and bank products such as mortgages and credit cards come into the market, the demand for better information on borrowers will naturally increase. Thus, the market will force greater need for a CIB, one that is trusted, efficient, technically secure, and easily accessible in real time
- The Bank of Mongolia is operating a functional CIB already with a number of technical problems in the process of being resolved; the BOM has stated publicly that it is willing to privatize the CIB; Parliament is likely to approve such a move, since Government authorities are convinced that better credit information will help reduce lending rates that are skewed upwards by uncertainty about borrowers
- All commercial banks in Mongolia and the large NBFIs strongly support the CIB idea and are willing to continue to share both positive and negative credit information on their customers. Utility companies would like to be included as members of the CIB. Insurance and leasing companies are at the nascent stage but upon reaching some volume and viability, they will likely find benefit by joining
- Commercial banks in Mongolia have little experience in cooperating for a common end, but in 2005 and 2006, they came together for the first time to facilitate the creation of the Housing Finance Corporation; ten banks signed a Memorandum of Understanding and have set up a Working Group that meets weekly at the central bank with BOM as chair of the Working Group and a shareholder of the HFC; the CIB is the next opportunity for inter-bank cooperation, and the model and momentum are present
- Demand for credits is high; loan growth in the banking system averaged 48% over the three years 2003-2005, and new consumer products (mortgages, credit cards) are coming onto the market. Banks are eager to expand their lending but want better assurances about asset quality. A CIB will accomplish this
- In the face of growing loan demand and the impending credit assessment requirements of Basel II, banks are aware they need to develop a better understanding of analyzing and managing credit risk versus simply collateralizing loans; credit information from a CIB is an essential ingredient in this process
- Strengthening the banking system and increasing transparency are high priorities of the Bank of Mongolia as well as international finance institutions such as the IMF, ADB, IBRD, EBRD and IFC. Success will prompt greater deposit and loan activity and hence utilization of the CIB
- There is no legal prohibition against a CIB, and it is conceivable that a new CIB Law could be passed by Parliament by the end of 2006
- There exists a unique identifier (personal ID number) for physical persons and a unique registration number of legal entities, so confusion over names and identities is minimal compared to many countries
- Other countries in the region (Kazakhstan, Kyrgyz Republic, Georgia) have recently set up their own CIBs, so there is experience to draw upon. It will not be difficult to find foreign technical assistance to advise on structuring the CIB and on early operations.

Finally, participants were told that after weighing all the positive and negative influences on their CIB enterprise, they should keep in mind the “success factors” that underlie a CIB in both early and later days: a tested model, trained staff, a clear business plan, adequate funding, and solid support from government.

At the same time they should keep in mind why CIBs have failed to get started in other countries. The table below summarizes experience around the world.

Stakeholders will want to avoid the following circumstances:

- Lack of agreement among the major stakeholders
- Lack of appropriate laws and regulations for data collection, management and usage
- Lack of proper international technical assistance
- Lack of definition as to who has access to data in the CIB
- Lack of clarity with respect to privacy and confidentiality of information.

Obstacles to a Credit Information Bureau

Global experience	Mongolia
1. Lack of support or consensus among the primary parties involved in credit transactions: commercial banks, NBFIs, the enterprise sector and government authorities.	Commercial banks are moderate to highly interested, enterprise sector not polled, DAB enthusiastic.
2. The lack of a “sponsor,” such as a bankers association or a major bank or entrepreneur, who will assume ownership of the credit bureau concept, drive it forward and make it happen.	Neither BOM nor the Bankers Association nor individual banks appear to have the time or resources to devote to the effort.
3. An unwillingness or reluctance on the part of commercial banks to (a) expose the extent of their own bad loans and (b) exchange proprietary or confidential information with others for fear of loss of their comparative advantage and market share.	Not the case in Mongolia. All commercial banks are already sharing data with the CIB.
4. A legal/regulatory environment that hampers the accumulation/distribution of financial & personal information due to (a) concerns over privacy, and (b) fear by regulators that the leakage of information could have systemic shocks.	The legal and regulatory framework are not a major obstacle to CIB operations; both major regulatory bodies support the CIB.
5. The absence of reliable data on the payment histories of physical and legal entities.	Payment histories exist for more than one year.
6. Delays by legislators to create the appropriate legal regime for a credit bureau, e.g., other issues of higher priority.	Many laws passed; many still needed; implementation is a problem.
7. The absence of credible or audited financial statements from commercial entities and a unique identifier for individuals.	Unique ID for individuals exists; accurate financials are a problem.
8. A culture or history that (a) discourages individual risk-taking, competition and a market mentality, (b) values secrecy or discourages information sharing; (c) has little experience with credit and instead transacts on a cash or barter basis, yielding little debt payment history for the CIB.	Little experience with credit and short credit histories; the record on market mentality, entrepreneurial spirit and debt repayment culture is mixed.
9. An attempt by the founders of a CIB to do too much in too short a time, rather than starting with some basic activities and building on them over time so that awareness, acceptance and confidence in the CIB can grow.	Not applicable.
10. A macroeconomic policy framework characterized by (a) tight money and fiscal discipline, such that economic growth is stifled and therefore lending activity is constrained.	Not the case in Mongolia; bank asset growth is almost too buoyant.

11. A lack of confidence in government and/or financial institutions, such that banks are risk averse and do not lend or lend only at high risk premia and multiples of collateral, shutting out the SME sector and entrepreneurs.	Banks are risk averse due to insufficient borrower payment records, lack of authentic documents and an anti-creditor bias in the court system.
12. Ongoing domestic or regional political instability that produces (a) caution and fear, preventing normal business transactions, including loan issuance and repayment, or (b) conflict that damages incomes/collateral.	Not a factor in Mongolia.

SECTION V: RECOMMENDATIONS AND WORK PLAN

A. Recommendations

Recommendations for the current CIB

The table on the next page lists ideas for improving the CIB and shows why, how, and when these should be done. The ideas cover such important areas as enhancing the content and speed of CIB output, charging a fee to users for information obtained, and the process of privatization.

Most of the ideas are derived from interviews with bankers and NBFIs, while the rationale and procedures are the result of discussions with the BOM and CIB staff. In this respect, the table represents a consensus on both the problems facing the CIB users and the means and timing of remedy.

In the process of proceeding toward a change in the CIB's ownership and operation, one essential recommendation (bottom of the table) is that the CIB begin charging a nominal fee of perhaps MNT 400 per inquiry. The CIB should explain to members the reasons for the imposition of a fee for the first time:

- Information is valuable in the market and charging a fee is logical
- Other CIBs around the world charge inquiry fees
- Current users of the CIB are benefiting from information obtained from the CIB, because it saves them time and manpower relative to informal or personal means of information gathering; in other words, banks are already saving money due to lower due diligence and investigative costs; the fees are a small charge for this service
- As the market for loans grows and the contemplated software and connection improvements are made, future users of an improved CIB will be saving even more in time and money
- The Bank of Mongolia has an outstanding debt to the World Bank of US\$ 100,000 that will be repaid out of the net proceeds of the fee revenues.

The BOM should make clear that any fees accrued after operating expenses are covered at the CIB will be used to pay off the World Bank loan that brought the present CIB into better operating condition. Any surplus monies beyond that would be allocated (a) against expenses associated with the privatization, and/or (b) toward a BOM equity position in the CIB, which, as we saw in Section II, is permissible under the Law on Central Bank, Article 23.

A word of clarification on the use of the term "corporatize" in the table. Corporatization is usually defined as a form of economic reform which takes services and non-core functions from the direct control of the government and places them in the control of government-owned corporations. This stage is often seen as a step towards full-scale privatization.

However, in this context we are using the term corporatize as a synonym for "commercialize," that is to bring private-sector principles to bear in the operation of the CIB, to charge market rates for services rendered, to prepare a budget and business plan, to introduce a commercial board of directors comprised of key members of the stakeholder community, and to hire and train competent staff. The purpose is to make the CIB a more attractive entity as an investment when the time comes to organize as a limited liability company or a joint stock company through the offering of shares.

Recommendations for the current CIB

Ideas for improvement	Why, how & when
Add fields in software to show number of days payments are late; more info on tax and customs arrears, guarantees, collateral, utility payments, credit card liabilities; loans still due from failed banks; loans from abroad; data on spousal and child support payments, links to family businesses.	Hold a meeting of IT people from banks and NBFIs to clarify & resolve the problems; CIB's software supplier should be able to modify their product to accommodate extra data fields and to improve interbank transmission compatibility.
Provide (i) full debt payment history of the customer, good or bad, month by month over several years and (ii) the names of banks that are creditors.	(i) A data input issue that can be solved easily (ii) To be discussed and decided in a forum of bankers.
Provide a "black list" of bad borrowers on CIB website.	Precedent established but there could be litigation issues; discuss the matter at the next MBA meeting.
Increase and train BOM supervisory staff; impose stricter supervision over bank loans to SCCs.	Need to have BOM and FRC coordination on this issue or systemic credit risk will rise.
Require that all NBFIs loans above certain amount be reported to the CIB (amendment may be needed to Law on NBFIs).	Many NBFIs loans escape the CIB net, raising systemic credit risk; Memo of Understanding underway to increase coordination with FRC.
Allow banks with loans under MNT 1 million to report just once a month; those with loans over MNT 1 million report updates more frequently.	Will ease reporting burden of large banks with micro loans (Xac, Khan), while capturing sooner in data base loans likely to be more problematic.
Do not privatize CIB right away; it needs improvement first, but set a public deadline and encourage bankers to develop MOU and potential investors to provide letters of intent.	First, improve CIB's data accuracy and timeliness, solve IT problems, calculate CIB's revenues and costs, educate bankers, hold forums, encourage production of a business plan.
As soon as possible, begin "corporatizing" the CIB as an interim stage prior to sale.	CIB needs to be seen as profitable and reliable in order to attract investors; use foreign TA.
Start charging user fees, both an annual fee and a per inquiry fee; all banks willing to pay fees if the data are accurate.	Precedent: BOM already charges fee for clearing service. Announce fees will start on 1 October 2006; need to explain rationale for fees.

That said, the process of privatizing the CIB needs special attention. The choices essentially boil down to two different approaches:

- (1) Have the BOM bring the CIB up to commercial standards through the recommendations for action mentioned above, while at the same time guiding a Working Group of stakeholders and domestic investors through the various stages of legal review, business plan creation, acquiring foreign technical assistance, etc.

- (2) Open the bidding globally for shares in a CIB to be created, with certain guidelines on ownership and operation. The open bid could conceivably attract funds from a number of respected foreign sources as well as foreign companies specializing in bringing credit information bureaus into operation. Bidders would need to submit for consideration both a financial plan and a technical plan.

The Supervision Department of Mongolbank prefers the first option for several reasons:

1. It will take less time than the second option
2. It would avoid having to first transform the CIB into a state-owned entity and then spin it off in a long bureaucratic process that requires (per the Procurement Law and the Law on State Property) competitive bidding on all asset sales
3. It will be easier to form the CIB as a JSC or LLC with commercial bank involvement from the beginning
4. Once the CIB operates successfully for a year or two, its value will be higher and it can seek foreign investors then.

To expedite matters it would be advisable for the BOM to consider three other options:

I. Before the end of 2006, bring in a team of foreign experts to put the CIB in “best-practice” shape, and then sell it when it has higher value.

II. Seek legal opinion on whether or not the “sale” of the CIB to the private sector can be deemed more of a BOM “divestiture” than a formal privatization. The CIB has few physical assets beyond computers and is not an SOE in the classic sense. Avoiding the usual privatization process will save much time and effort. It may be possible, as suggested in Section II, to achieve a ruling that the CIB is just a creation of the BOM by regulatory fiat and can be divested by another BOM regulation rather than deemed an actual SOE.

In addition, it may be that the Law on Privatization does not apply to all state assets. Is there some way the CIB can be defined not as a state asset but merely a department of the central bank? This interpretation could hold if the current CIB retains some portion of the CIB data base as suggested in the table below.

III. A related option would be to determine if Mongolbank in its role as banking sector *supervisor* can simply pass a new regulation amending its earlier Regulation on CIB. The new regulation could define the duties and purpose of a private CIB, specify shareholding percentages for banks, and provide for a gradual shifting of its CIB responsibilities to the banks, all this to avoid formal privatization procedures. Explore whether the Governor of Mongolbank can act alone to shift the CIB function to the private sector.

In conclusion, in order to benefit from the current interest and momentum in the financial community and the willingness of the BOM to move forward with the CIB’s commercial development, the consultant recommends the following: The BOM should immediately implement the recommendations above so that confidence in the CIB builds along with its usage, credibility and cash flow.

Recommendations for stakeholders

Assuming the principal interested parties do indeed want to create a privately run CIB, then they need to get organized. They should convene a formal Working Group of stakeholders and organize themselves into subcommittees that will deal with such issues as laws and amendments, shareholding, business plan, IT, foreign technical assistance, composition of CIB membership, etc.) The BOM could initially co-sponsor a series of meetings of principal bank and NBFIs representatives to discuss basic concerns.

Working Group issues to discuss

- Timing of privatization: now or later?
- Who will the shareholders be? The users? The management team?
- Should Mongolbank be a shareholder?
- Should one or more IFIs be offered an equity stake?
- What changes are needed in the legal framework?
- Type of fees and size of fees
- Who will develop a business plan for the CIB?
- How do we assure best practice in four key areas:
 - timeliness of information
 - ease of access
 - data security
 - completeness of data
- Privacy concerns—who gets access to the CIB data?
- Hardware, software and technical issues, e.g., Mongolian or English or both?
- Technical support – from where and for how long?

For example, the “Laws and Amendments Subcommittee” should (a) seek legal review of the ideas in Section III, and (b) draft a new Law on Credit information Bureaus, and (c) present them all to the appropriate parliamentary committee for consideration. The law must ensure that issues such as the security, confidentiality, accuracy and trustworthiness of information are addressed and the legal rights and duties of all stakeholders are defined. CIB laws have been passed recently in Kyrgyzstan and Kazakhstan which Mongolian legislators can refer to. The law should include several standard elements that comprise best practice, such as those listed in the table in Section III.

While amendments to existing laws might expedite the creation of a CIB, it would not be in the private CIB’s long-term interest or commercial safety to leave a gap in the legal setting where judicial misinterpretation becomes more likely. The CIB as a legal entity could end up in limbo and subject to many demands for redress. Operational risk would be high and it would put the new company’s sustainability in question. For example, inexact drawing of the new Law on Non-Judicial Foreclosure of Mortgage Assets has resulted in its being rejected by the Constitutional Court.

As usual, the issue comes down to politics: assembling a strong enough coalition of stakeholders to put the CIB matter near the top of the legislative agenda and pushing a TA-supported draft law through to passage. It appears the BOM and the commercial banks constitute such a coalition. Aiding the cause for passage will be Parliament’s concern over

continued high interest rates, which a CIB, by reducing uncertainty, could rein in. Delays in pursuing the CIB initiative would mean missing the current window of opportunity, resulting in a state of legislative inertia, as has happened with the draft law on leasing which is mired in Parliament.

Recommendations for the private CIB

The recommendations shown in the table below are a natural continuation of those for the current CIB. While the main focus of the first set of recommendations was on preparing the CIB for a change in status, the main focus here is on the sustainability of the new enterprise. The survivability of a new private entity will depend on a sensible business plan, a good management team, and continual shareholder support.

Finally, the last section below provides a work plan, or outline of steps over the next 6-8 months to bring the project to reality. Delays are inevitable so leadership and persistence are the qualities sought.

Recommendations for the private CIB

Ideas to enhance sustainability	Why, how & when
Need a separate CIB Law; Mongolbank regulations or amendments to existing laws may not suffice.	Need to protect CIB from liability issues arising from the weak judicial system; a law will help legitimize the CIB, define responsibilities of all stakeholders and accelerate CIB development.
BOM may need to keep a minority share in CIB, e.g., 2-5%, for a period of time.	Will give CIB aura of safety, confidence and attract foreign interest; it will also reduce fears that an economic group or family could take control and/or manipulate the data.
Mongolbank should consider retaining that portion of the CIB data base that covers loans over \$1 million, credit info pertaining to prudential ratios, and private sector loans borrowed on the international markets.	Will assist the central bank's supervisory activities and balance of payments monitoring.
Use a graduated inquiry fee, running up the scale from minimal info on borrower, to deeper search, to fraud detection, to credit scoring, to a bad debtor monitoring service.	Different services will appeal to different creditors; some need only basic data, some a more sophisticated search; graduated fees will leverage the data base and diversify CIB's revenue stream.
Send 2-3 future CIB employees to foreign CIBs for training e.g., Kazakhstan, Georgia, Kyrgyz Republic ⁸ .	Should not wait until incorporation; exposure to successful operations is essential at every stage of CIB development.
Involve an international donor or financial institution as shareholder, e.g., IFC.	Will greatly reduce the risk of corruption.
After 2-3 years Mongolbank could sell its equity share in the private CIB, perhaps to a foreign entity.	Want to avoid CIB users' protracted worries over government interference in the CIB, the risk of corruption and the problem of moral hazard; a reputable foreign firm/IFI will add further credibility to CIB.

B. Work plan

September 2006:

- BOM to convene a stakeholder meeting and set up a Working Group
- Group to assign tasks to various subcommittees (legal, technical, membership, business plan, etc.) and meet weekly
- Interested banks and NBFIs to agree on clear Memorandum of Understanding.

⁸ A Mongolian proverb says, "It is better to see it one time than to hear it 100 times."

October 2006:

- Stakeholders should sign an agreement regarding information sharing and rules for the private CIB
- The Working Group subcommittee on law should draft a Law on CIB and submit it to Parliament.

November 2006:

- Stakeholders complete business plan and charter for CIB; investors complete Letter of Intent
- BOM to begin discussions with IFIs regarding an investment in CIB
- Working Group should send 2-3 members to visit credit registries in several countries, e.g., Kazakhstan, Georgia, Kyrgyz Republic.

December 2006:

- Based on business plan, determine amount of capital due from each founding member
- Hire reputable public relations firm; undertake public awareness campaign and consensus building among stakeholders
- Start educating public on the nature, role, purposes and benefits of a CIB, using workshops, print media, brochures and information bulletins.

January 2007:

- Technical subcommittee to submit report on format and scope of CIB data base
- Obtain signed contracts with all major users and providers of information.

February 2007:

- Formally incorporate and register the private, independent CIB
- Appoint a CEO or Managing Director for the CIB
- CIB should start signing contracts with member-users
- Hire foreign assistance to integrate IT systems and interbank computers, and to provide training and operations support for up to six months
- Continue information campaign to influence public and government.

March 2007:

- Conduct seminars on the CIB open to public with media coverage
- Start implementing business plan (renting space, equipping, hiring, marketing)
- Hire qualified technical and managerial employees for CIB.

April 2007:

- Use foreign TA to install/test connectivity and internet/interbank safeguards and software
- Create manuals for CIB employees and credit officers at member institutions as guides to data processing, permissible information flows and consumer rights
- Train judges and lawyers on permissible uses of credit information and on consumers' rights.

May 2007:

- Continue seminars and public speeches to educate the private sector and government institutions on the role of the CIB and the problems it will solve
- Continue testing hardware/software to eliminate mistakes in data and data transmission
- Update the business plan in light of experience to date
- Produce sample credit report on a client to test format, scope and IT systems.

**ANNEX A: TERMS OF REFERENCE FOR SHORT-TERM CONSULTANCY ON
CREDIT BUREAU**

ANNEX A: TERMS OF REFERENCE FOR SHORT-TERM CONSULTANCY ON CREDIT BUREAU

Background and justification for the assignment

The goal of credit information bureaus (CIBs) is to ease a fundamental problem in the credit markets: asymmetric information between borrowers and lenders. Formal information exchanges help lenders to identify good borrowers thus reducing the incidence of adverse selection. The practical consequence of this is better risk management by financial institutions which enables them to expand their lending to underserved segments of the population such as Small and Medium Enterprises. The availability of reliable credit history information reduces the time and therefore the cost of analyzing the risks of lending to individuals and SMEs. The fact that payment information is shared reduces the risk of moral hazard and therefore lowers the cost of loan losses to lenders. Lower transaction costs and lower losses can allow financial institutions to reduce their margins and can thus lead to lower interest rates and greater overall economic activity.

Mongolia currently has a credit information bureau operated by the central bank, Mongol Bank. However, it only collects information from, and shares information with, banks and larger financial non-bank financial institutions. International best practices indicate that public credit registries operated by the central bank are not the best solution, partially because they are generally limited in scope. However, not all private credit bureaus are trustworthy and effective either. A CIB's fundamental obligation to generate trust among its members and borrowers that information will not be mishandled or abused is encouraged by proper regulation, including consumer protection. In addition, the bureau's ownership and governance structure are important.

The Project recently sponsored a focus group meeting involving over 80 representatives of banks, non-bank financial institutions, public utilities, the Mongolian Bankers Association, and Mongol Bank. The purpose of the meeting was to hear a presentation by Mongol Bank on the current situation of the Credit Information Bureau and their plans for its development, followed by an open discussion on the future of the bureau. The consensus of opinion was that the information being collected and shared was not appropriate, the business model is incorrect, and Mongol Bank should not be the operator. There was no clear consensus on who the operator should be, whether membership and disclosure should be mandatory or what the business model should be. Mongol Bank publicly stated that it was not opposed to the bureau transitioning to the private sector.

Purpose and objectives of the consultancy

The purpose of this consultancy is to lead project efforts to support the financial sector to develop a financially viable and sustainable private sector operated credit information bureau.

The primary objectives are to:

1. Review the existing credit bureau, the requirements of the financial institutions and other credit granters, and the legal and regulatory environment and recommend an appropriate business model and regulatory improvements required to meet credit information sharing requirements.
2. Support the private sector and Mongol bank by recommending ways and next steps to either transition the existing credit information bureau to the private sector or, if more appropriate, establish a de novo bureau.

Indicative activities of the consultancy

Indicative activities of the consultancy include, but are not limited to, the following:

- Review the current operations, information collection and reporting of the public credit information bureau.
- Review and inventory the credit information reporting capabilities of the most relevant credit granters
- Review and inventory the credit information sharing requirements of the most relevant credit granters
- Review the existing legal and regulatory environment as it relates to credit information sharing and outline changes required to bring it into line with international best practices.
- Assess the feasibility of a financially viable, sustainable privately operated credit information bureau and possible ownership and governance structures
- Assess the feasibility and methodologies for transitioning the existing credit information bureau into a financially viable and sustainable private sector operated entity
- Prepare a draft preliminary report detailing the findings from the above steps and recommending proposed solutions and next steps to achieve the objectives.
- Prepare and deliver a presentation on the draft initial report to relevant representatives of the financial sector, business community, consumer groups, Mongol Bank and the Government of Mongolia.
- Obtain feedback and refine the draft preliminary report into a final report

Deliverables

Expected products of the consultancy include the following:

1. Draft preliminary report as outlined above
2. Presentations of the above.
3. A final report incorporating feedback from the presentations and refining the preliminary draft report.

All deliverables shall be submitted in both printed and electronic form, and shall be in a format acceptable to EPRC. Electronic versions will be prepared in Microsoft Office applications software. EPRC will supply in-country translation, coordination and transportation logistics for the assignment.

Duration and schedule of the assignment (LOE)

Total duration of the consultancy is estimated at 30 work days in Mongolia, exclusive of international travel to and from Ulaanbaatar, Mongolia.

Place of work

The assignment will take place in Mongolia.

Supervision and coordination of assignment

The consultant will work under the supervision of Mr. Tim O'Neill, EPRC Financial Advisor, or his designated alternate.

Technical area of expertise and experience requirements for the consultancy

In addition to relevant technical and professional experience requirements, the project requires a person with acute awareness of political processes and interests of diverse constituencies and

demonstrated excellence in communications and relationship management. As summary of these requirements is as follows:

- Master's or PhD preferred, or equivalent combination of education and work experience in a relevant technical competency area such as credit information or regulation
- Demonstrated ability to develop and manage relationships with counterparts, multilateral institutions, domestic private sector, foreign investors, and NGOs in developing countries
- Pragmatic and effective communications skills, including the development and delivery of targeted messages, summaries and information on issues to diverse groups, both orally and in writing
- Successful track record of effective performance, pragmatic judgment, negotiations, and relationship management in politically sensitive reforms and environments
- Ability to conceptualize issues, outline, perform, and direct research and writing of technical documents (reports, manuals, proposals, assessments)
- Minimum 15 years of service in senior advisory positions, project and staff management experience within the field of credit information or regulation in developing economies
- Familiarity with establishment of credit information bureaus in developing economies

ANNEX B: CIBS IN THE REGION

ANNEX B: CIBS IN THE REGION

Armenia:

- Armenian Credit Reporting Bureau (ACRA) started in 2004
- Privately owned; shareholders include Dun & Bradstreet and Schufa (Germany)
- No public registry.

Dubai:

- Due to strong demand from local business community, Government announced plans in July 2003 to create a credit bureau linked to the UAE Central Bank
- Aim is to maximize growth and facilitate investment in Dubai.

Georgia:

- Entrepreneur founded National Credit Information Bureau in 2003
- Partial owners are four largest banks and CreditInfo (Iceland CIB).

Kazakhstan:

- Collateral registry at central bank set up in mid-1990's to check collateral-based loans
- CIB law passed by Parliament in summer 2004; includes pos/neg info sharing
- Private Credit Bureau established in 2004. Strategic alliance with CreditInfo Group (Iceland). Major Kazakh banks also shareholders
- USAID provided technical assistance.

Kyrgyz Republic:

- Opened the first functioning and profitable CIB in the CIS in 2003
- EBRD & USAID provided technical & financial assistance
- Draft law on CIB submitted to Parliament
- Trilingual website at www.ishenim.kg.

Pakistan:

- Central-bank owned CIB started in 1992
- All banks and non-bank financial institutions (>100) are members
- Can deliver online credit reports to members in 5 minutes.

Russia:

- Several CIBs registered by supervisory authority
- Russian banks working on memoranda of understanding
- Law says banks must join at least one CIB.


Turkey:

- 1993 – Banking Law amended to make data sharing possible among banks
- KKB, a private CIB,, independent of the central bank, created by the Turkish Banks Association in 1999 with 11 founding bank members
- Banks must provide all their loan data to make searches on other members' data
- Provides information on consumer credits (both positive and negative) over period of prior three years; information on SME's may soon be included
- Members are banks, insurance, leasing and factoring companies, and others.

ANNEX C: POWER POINT PRESENTATION

ANNEX C: POWER POINT PRESENTATION

Slide 1





The Mongolian CIB: Reform and restructure

Roger Nye, Ph.D.
Senior Credit Advisor

June 29, 2006
Ulaanbaatar, Mongolia

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Topics for today

- I. Credit information bureaus (CIB's)—a review of their principles, practices and benefits
- II. Findings from our interviews
- III. A Private CIB in Mongolia
- IV. Conclusions and Recommendations

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I. CIBs – Principles, practices and benefits

- Why are CIBs important?
- How are CIBs created?
- How do CIBs operate around the world?
- Best practices
- Why do some CIBs succeed while others fail?

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Credit Information is important because lenders can...



- Identify bad borrowers
- Price risk accordingly
- Offer better conditions to good borrowers
- Collect most risky debt first



Information is the key

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The *More* information the better—Why?

Because with *insufficient* information...

- All borrowers look the same to creditors
 - No pricing for risk:
 - Average interest rate too high for good borrowers, so they cut back their loan demand or drop out of formal sector
- With *more* information...
 - Loan markets work more efficiently
 - Greater volume of lending at lower cost


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General benefits of a CIB

- **Creditors**—reduced losses, more efficient operations (time and money saved), better customer service
- **Consumers and SME's**—easier, and often cheaper, access to financing; encourages better borrower behavior
- **Financial System**—more lending and development of new credit products, e.g., credit cards, mortgages
- **Real Economy**—easier financing stimulates lending, investment, employment, and GDP growth
- **Government**—less systemic risk from business or bank insolvencies; reduces tax evasion



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Credit reporting environment in emerging markets & transition countries


- Established lenders often fear that sharing data on their customers will help their competitors
- Borrowers fear their personal and financial info will fall into the hands of the tax authorities
- Reporting only by banks misses important experience from other industry sectors
- Privacy laws restrict financial reporting in many countries

DO THESE CONDITIONS APPLY IN MONGOLIA?

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CIBs in transition countries

- **Armenia:** Private Armenian Credit Reporting Bureau (ACRA) started in 2004; shareholders include Dun & Bradstreet and Schufa (German CIB)
- **Georgia:** Georgian entrepreneur founded private CIB in 2004 after bankers association could not agree on process and membership
- **Kazakhstan:** Private CIB set up 2004; banks are major shareholders; USAID provides TA




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CIBs in transition countries

- **Kyrgyz Republic:** Opened the first functioning and profitable CIB in the CIS in 2003; EBRD & USAID provided technical & financial assistance
- **Russia:** Several CIBs registered by supervisory authority, banks working on MOUs; law says banks must join at least one CIB
- **Ukraine:** Credit Bureau Law passed in 2005, participation voluntary, 3 CIBs set up in Kyiv but none operational



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Public credit registries in general...

- Operated by Central Bank or Supervisory Institution
- Cover supervised institutions only
- Mandatory reporting of credit exposures
- Typically above certain minimum amount
- Supervision of credit exposure of these institutions (aggregate exposure, concentration)



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Countries with public credit bureaus only

Country	Year Founded
• Azerbaijan	2004
• Belarus	1996
• Bulgaria	2000
• Egypt	1957
• Jordan	1966
• Mongolia	1996
• Nepal	2001
• Pakistan	1992
• Romania	2000

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Public vs. private registry

PUBLIC	PRIVATE
<ul style="list-style-type: none">• Focus on regulation & supervision• Data provision mandatory• Covers only large borrowers• Captures only larger loans• Used to guide bank loan loss provisioning• Restricted to reciprocity basis• Not designed to catch fraud• Little ability to affect lender credit decisions• Little impact on real economy	<ul style="list-style-type: none">• Sells credit histories for profit• Data provision voluntary• Covers most debt holders• Captures most loans• Distinguishes good vs. bad borrowers• Open to all who pay fee• Catches error/fraud better• Helps lenders to improve their credit decisions• More lending stimulates growth in output, employment and incomes

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How are private CIBs created?

- **By coalition of top commercial banks:** Kazakhstan, Turkey, Taiwan, Philippines
- **By entrepreneurs:** Georgia, Bosnia & Herzegovina
- **By bankers associations:** Poland
- **By chambers of commerce:** Malta

There must be a Leader!

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Key principles of a private CIB (I)


- Participation and cooperation in a CIB are voluntary.
- CIB makes no credit decisions; it's only a central clearinghouse and supplier of data to subscribers
- Subscribers (creditors) use their own criteria and make their own lending decisions



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Key principles of a private CIB (II)


- Reciprocity – only those supplying data are allowed access to data base, which should contain both positive & negative information
- CIB survival depends on integrity, trustworthiness, confidentiality and security of data
- CIB acts independently from government, creditors, debtors and shareholders...but all are stakeholders



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What are CIB “best practices”?



According to the World Bank, the ideal credit bureau:

- Compiles both negative and positive information
- Includes both individuals and firms in its database
- Collects information from lenders, and from other businesses, such as retailers, telecommunications companies, and utilities
- Preserves data for a period of at least five years
- Obtains information on all loans made within a market
- Provides consumers access to credit histories, and permits correction of errors




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Why do CIBs succeed?

- ✓ The largest lenders and data-providers are involved
- ✓ A solid business plan is developed and followed
- ✓ Key government officials are kept informed, but state agencies are not participants in the business
- ✓ The database is kept current
- ✓ An experienced turnkey solution provider is used




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Why do CIBs fail?


- ☒ Lack of agreement among the major stakeholders
- ☒ Lack of appropriate laws and regulations for data collection, management and usage
- ☒ Lack of proper international technical assistance
- ☒ Lack of definition as to who has access to data in the CIB
- ☒ Lack of clarity with respect to privacy and confidentiality of information



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II. Findings from interviews


38 Meetings, comprising


- Mongolbank
- 11 banks
- 7 NBFIs
- 6 IFIs
- the MBA, MNCCI, and FRC
- 2 accounting firms & 2 law firms
- 2 utility companies



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Favorable perceptions of the CIB (I)

- “It plays a big role in our credit decisions.”
- “It is impossible for us to make a loan without the CIB.”
- “It is our only independent external source of info.”
- “The connection to the CIB is safe and technically secure.”

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Favorable perceptions of the CIB (II)

- “It is a good control mechanism since we can check what the applicant has told us”
- “The CIB is very important for our review and research.”
- “The info content from an inquiry is very good.”
- “We expect it to be one of our main decision tools as the market grows”

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Problems with the CIB


- ➔ “The inquiry process is cumbersome; it’s too much paper work and too many errors result.”
- ➔ “Since CIB data are weeks out of date, borrower information is not accurate.”
- ➔ “Too many software glitches and connectivity problems.”
- ➔ “Collateral information is not complete and there is no information on a borrower’s contingent liabilities.”
- ➔ “We worry that other government agencies might have access to the CIB data base.”

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Some good ideas for improving the CIB at BOM (I)



- Give information on:
 - a) A customer's payment record with utilities, insurance companies and big retailers
 - b) The debts & payment records of a customer's spouse and other relatives
 - c) A client's business linkages, e.g., directorships
 - d) The client's collateral, if pledged elsewhere
- Provide an "early warning system" if a borrower misses one or more payments at any bank


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Some good ideas for improving the CIB at BOM (II)

- Produce an inquiry form that is simpler, less time-consuming and less error-prone
- Provide a "black list" of bad borrowers
- Require that all NBF1 loans above a certain amount be reported to the CIB
- Allow banks to send minimal update of loan info on a daily basis and a fuller version every two weeks



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Views of market participants – Banks

1. All banks understand the need for credit information, value CIB data, and are in favor of a private CIB with voluntary membership
2. While using CIB data, most banks still use informal contacts, past client relationships, the value of collateral, and the borrower's business plan for their credit decisions
3. Banks do not agree on the timing for privatizing and on the need for separate legislation
4. All banks want some degree of NBF1 participation in a private CIB

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Views of market participants – Banks

5. Banks all agree on need for inquiry fees but don't agree on membership fees
6. A few banks expressed an interest in being a leader and investor in a new CIB
7. Ownership of a private CIB should be broad and equal (maybe 5% each)
8. Shareholders should include the BOM to add credibility and include foreign donors to reduce risk of corruption
9. CIB will need foreign TA and donor assistance for first year to assure success


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Views of market participants – NBFIs

1. Consensus on value of the CIB
2. NBFIs use their network of informal contacts to ask about a customer; this takes time but in the view of many it is more reliable than the CIB
3. Want CIB to be 100% private and for profit
4. Should be more than one CIB for sake of competition, but not one for banks and one for NBFIs



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Views of market participants – NBFIs

5. CIB's **owners** should be banks and large NBFIs (or the Association of NBFIs)
6. All creditors, including SCCs, should be **members**, i.e., contribute and have access to the CIB
7. Timing for privatization– the sooner the better
8. Willingly pay a fee for reliable information



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Views of market participants – MBA

1. MBA can be the forum for discussion
2. MBA members should decide who owns and manages a private CIB and whether it should be for profit or not-for-profit
3. NBFIs should be members but not shareholders
4. CIB will require foreign TA for initial operations
5. Current CIB should start charging fees to cover costs

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Views of market participants – IFIs

1. Good laws in place but not implemented
2. Insufficient transparency and accountability in government and financial institutions
3. Not enough credit quality control in banks and not enough supervisory oversight at BOM
4. Banking system may undergo a shock due to interlocking financings of the SCCs
5. A CIB is vital for the banking system

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III. A private CIB in Mongolia

- Should a private CIB be established?
- Are the supporting conditions in place?
- Is the timing right for a private CIB?



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We've got the CIB; why create a private one?

1. Private CIB distinguishes good versus bad borrowers at SME and micro level as opposed to CIB's macro level
2. Private CIB catches errors and fraud better than public CIB
3. Profit-oriented CIB has incentive to continually improve processes and services
4. Will help lenders improve & speed up their credit decisions
5. Will stimulate lending, investment, growth, jobs, incomes

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Are the supporting conditions in place?

- ✓ Virtually all banks and large NBFIs support the idea
- ✓ Will have BOM backing and experience to get started
- ✓ There is a unique identifier for individuals and companies
- ✓ No major barriers or explicit laws stand in the way
- ✓ Retail demand for loans & credit cards is growing → greater need for customer payment data
- ✓ Foreign TA and technology are available
- ✓ Other countries in region have CIBs, so we don't have to "re-invent the wheel"

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Create private CIB Now? Yes, because....

1. Commercial bankers eager to get involved
2. Basle II will soon require banks to manage credit risk better
3. Foreign investors looking for local partners will need CIB info
4. Easier to start now with less data than later with more data
5. Why wait until the current CIB at BOM is perfected?
6. Current CIB is a diversion from BOM's primary tasks of monetary policy & supervision
7. CIB will help financial system evolve in right direction

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Create private CIB Now? No, because....

1. Data bases on persons and businesses are limited in time, depth & accuracy
2. No obvious and credible leader of a CIB effort yet
3. Appropriate IT structure not fully in place yet
4. Implementation requires extensive education campaign aimed at financial sector as well as consumers and businesses
5. Appropriate legal framework not in place

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Necessary, complementary institutions

- Movable and immovable property registries
- An anti-money laundering law
- An effective non-judicial foreclosure law
- Laws on deposit insurance, privacy and holding companies
- Independent and impartial judicial system
- Up-to-date IT to ensure accuracy and security of data



MONGOLIA HAS SOME WORK TO DO HERE

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IV. Conclusions and recommendations


- What is important to remember?
- Where do we go from here?
- What are the next steps?



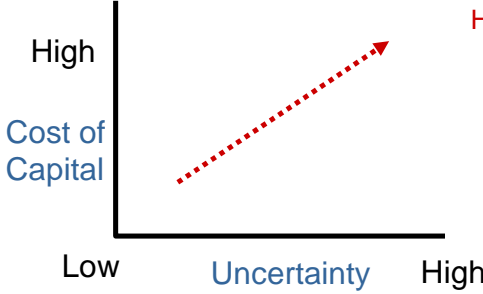
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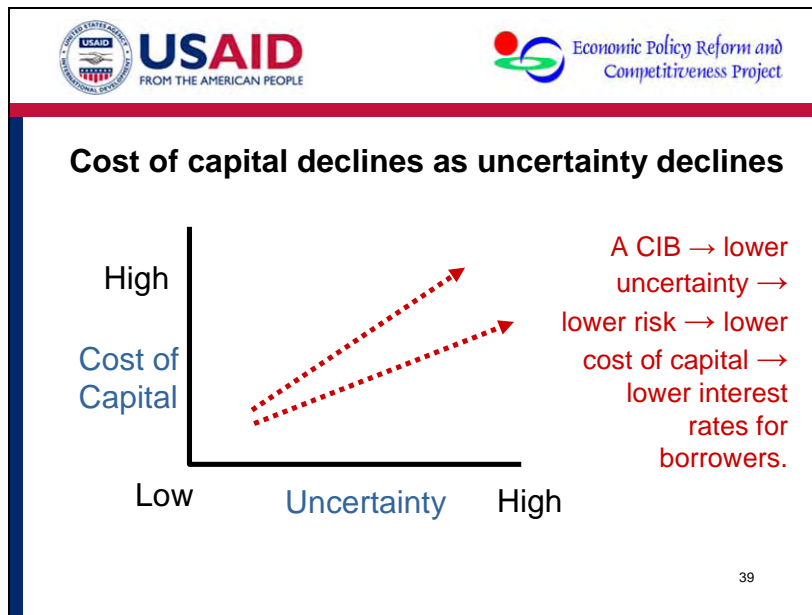
Cost of capital rises as uncertainty rises



Higher uncertainty
→ higher capital costs → higher interest rates for borrowers → fewer loans by banks

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-
- Some conclusions**
- The CIB cannot be created or imposed by outsiders; CIB needs to be developed by stakeholders locally
 - BOM, MBA, and NBFIs should meet regularly to discuss the issues/options
 - Technical assistance & support from foreign sources is available; need someone onsite for at least six months to manage startup
 - To succeed, the CIB will need a good model, trained staff, clear business plan, adequate funding, and solid support from government
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What should the next steps be?

1. Establish Working Group of stakeholders
2. Involve BOM
3. Get agreement of all stakeholders on goals, roles, objectives
4. Create and sign a memorandum of understanding
5. Get legal advice on adequacy of existing laws dealing with privacy and confidentiality of personal and business information



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Next steps (continued)

6. Write a business plan
7. Write a draft CIB Law to submit to Parliament
8. Find a technical partner
9. Start staff training
10. Start stakeholder education
11. Accept that the project will take time and commitment



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Basic issues to discuss concerning a future private CIB (I)

- Timing of privatization: now or later?
- Who will the shareholders be? The users?
The management team?
- Should Mongolbank be a shareholder?
- Should we invite the IFC?
- Is the legal framework in place for privatization?
- Who will develop a business plan for the CIB?

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Basic issues to discuss concerning a future private CIB (II)

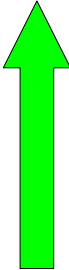
- *Four critical issues with a CIB:*
 - timeliness of information
 - ease of access
 - data security
 - completeness of data
- Privacy concerns—Who gets access to data?
- Hardware, software and technical issues, e.g., Mongolian or English or both?
- Technical support – from where and for how long?
- Type of fees and size of fees (see next slide)

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The graduated inquiry fee

<ul style="list-style-type: none"> • Monitoring certain borrowers • Credit scores based on a weighted formula • A broader D&B-type credit report • Fraud detection • Access to the “black list” of bad borrowers • Deeper into a borrower’s payment history • Basic minimal information on the borrower 		<p style="text-align: right;"><i>MNT</i></p> <p>10,000</p> <p>4,000</p> <p>2,000</p> <p>1,000</p> <p>600</p> <p>400</p> <p>200</p>
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BOM’s role going forward

- I. Must prepare the groundwork for privatization of CIB: improved software, new fees, timetable
- II. BOM involvement will
 - (a) generate public trust and credibility in a new CIB
 - (b) help generate foreign funding and TA
- III. BOM can push for needed CIB Law or amendments

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Recommendations for BOM

1. Begin correcting the technical and administrative problems behind the CIB so that confidence and usage grow
2. Bring the CIB to a “commercial” state, including inquiry fees, before starting privatization
3. Co-sponsor a series of meetings of principal bank and NBFIs to determine next steps and resolve basic issues

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Making a CIB succeed

The keys to Success

- Good financials and deep pockets
- Legislation
- Cooperation of users and data providers
- Commitment and patience

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Balance competing interests



Only through discussion among stakeholders can differing interests be reconciled and a CIB be created that is **sustainable over time**.²⁶

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THANK YOU FOR YOUR PARTICIPATION



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ANNEX D: MEETING SCHEDULE

ANNEX D: MEETING SCHEDULE

Time	Name	Position	Organization	Phone	Fax	e-Mail	Participants
6-Jun-06	Tuesday						
15.30 - 16.30	Maaike Van Hoeflaken	Project Director	IFC Leasing Project	459607	459651	mvanhoeflaken@ifc.org	Roger, Ashidmaa
7-Jun-06	Wednesday						
9:00 - 10:30	Ganbaatar, J.	Director	Supervision Department, Mongolbank	328482	311471	iganbaatar@mongolbank.mn	Roger, Ashidmaa
	Batmonkh, D.	Director, Banking Division	Supervision Department, Mongolbank	318301	311471	batmonkh@mongolbank.mn	
11:00 - 12:15	Gur-Aranz, E.	CEO	Anod Bank	99112228, 330347	318522	guraranz@anod.mn	Roger
	Naidalmaa, B.	Director, Risk Management Dept.	Anod Bank	315315, 99112195	315431	naidalmaa_st@anod.mn	
Lunch break							
14:15 - 15:30	Ganhuyag, Ch.	CEO	XacBank	99117392	328701	ganhuyag.ch@xacbank.mn	Roger
15:45 - 17:00	Niel Isbrandtsen	Advisor	Khaan Bank	99090925, 460618	457880	isbrandtsen@khanbank.com	Roger
	Erdenebat, S.	Loan Officer	Khaan Bank	457899	457880	eb_13s@yahoo.com	
	Enkhtsetseg, G.	Head, Planning and Analysis Dept.	Khaan Bank	99097053, 452645	457880	enkhtsetseg@khanbank.com	
8-Jun-06	Thursday						
9:30 - 10:45	Randolph Koppa	CEO	Trade and Development Bank	321171	318970; 326686	R.KOPPA@tdbm.mn	Roger, Ashidmaa
	Ogonsuren, U.	Vice President, Risk Management	Trade and Development	329287	329287	odonsuren@tdbm.mn	

Time	Name	Position	Organization	Phone	Fax	e-Mail	Participants
			Bank				
11:00 - 12:15	Orkhon, O.	CEO	Ulaanbaatar City Bank	99112608	311067	orkhon@ubcbank.mn	Roger, Ashidmaa
Lunch break							
14:15 - 15:30	Medree, B.	CEO	Capitron Bank	99114404, 315503328372	315635	medree@capitronbank.mn	Roger, Ashidmaa
	Erdenetsetseg, B.	Director, Business Banking Dept.	Capitron Bank	99112078, 328374	328742	erdenetsetseg@capitronbank.mn	
16:00 - 17:00	Unenbat, J.	Advisor	Mongolian Bankers' Association	99118745, 319962	319962	monba@mongolnet.mn	Roger, Ashidmaa
	Tserenpurev, G.	CEO	Mongolian Bankers' Association	99119045, 323581	314104	tseren@mongolnet.mn	
9-Jun-06	Friday						
10:00 - 11:15							
11:30 - 12:15	Oyunchimeg, T.	Director, Loan Department	Zoos Bank	99115528, 330585	315717	oyunchimeg@zoosbank.mn	Roger
Lunch break	Ganbaatar, J., Javzan	Director, Supervision Department	Mongolbank	328482	311471	iganbaatar@mongolbank.mn	Roger, Ashidmaa
14:15 - 15:30	Dorjnamjim, L.	Associate Investment Officer	IFC	99114828	312696	dlhaajav@ifc.org	Roger
15:45 - 17:00							
12-Jun-06	Monday						
9:30 - 10:45							
11:00 - 12:15	Ganbold, S.	Director	Delta San, NBF	99112603, 312635, 319937	312608	si_ganbold@magicnet.mn	Roger, Ashidmaa
Lunch break							
14:00 - 15:15	Bayasgalan, D.	CEO	Golomt Bank	311971; 311530	312307	bayasgalan@golomtbank.com	Roger
	Baigal, Yu.	Senior Economist,	Golomt Bank	311530, 311971	312307,	ybaigali@golomtbank.com	

Time	Name	Position	Organization	Phone	Fax	e-Mail	Participants
		Corporate & SME Lending Dept.			311958		
16:00 - 17:00	Mandar Jayawant	Acting Resident Representative	ADB	329836	311795	mjayawant@adb.org	Roger
13-Jun-06	Tuesday						
9:30 - 10:45							
11:00 - 12:15	Oyunjargal, D.	CEO	Mongol Post Bank	99116466, 326518	328501	oyunjargal@postbank.mn	Roger
	Altangerel, B.	Senior Credit Officer, Corporate Customer Department	Mongol Post Bank	311603	311603	altangerel@postbank.mn	
Lunch break							
14:30 - 15:30	Purevdorj, Ts.	Marketing and PR Director	Skytel	318488, 91101091	318487	purevdorj_marketing@skytel.mn	Roger
15:45 - 17:00	Byamba-Ochir	Executive Director	UB Heat Network	342397, 99115905	342397	dhsb@ubds.energy.mn , ochir9@mongol.net	Roger
14-Jun-06	Wednesday						
9:30 - 10:45	Tsolmon, D.	CEO	Credit Mongol, NBF	99116032	324901	tsolmon@creditmongol.org	Roger
11:00 - 12:15	Gereltuya, O.	Office Manager	EBRD	99117987, 331390	331391	ebrd_mcf@mongol.net	Roger
Lunch break							
14:30 - 15:30	Robert La Mont	Chief of Party	Judicial Reform Project	327696, 99114390	313035	rlamont@magicnet.mn	Roger
15:45 - 17:00	Ganbaatar, J.	Director, Supervision Department	Mongolbank	328482	311471	jganbaatar@mongolbank.mn	Roger
15-Jun-06	Thursday						
9:30 - 10:45	Duger, D.	Director, Loan and Economic Department	Capital Bank	99114024, 316859	310833	dduger_d@yahoo.com	Roger

Time	Name	Position	Organization	Phone	Fax	e-Mail	Participants
	Gerelmaa, A.	Expert of Foreign Settlement	Capital Bank	319247, 99640974	310833	gerel_agvaan@yahoo.com	
11:00 - 12:15	Altansukh, G.	Senior Associate	Ernst & Young Mongolia Audit LLC	312005, 314032, 91918985	312042	altansukh.ganbaatar@my.ey.com	Roger
	Amgalan, E.	Office Manager	Ernst & Young Mongolia Audit LLC	312005, 314032, 99712166	312042	amber403@hotmail.com	
Lunch break							
14:15 - 15:30							
15:45 - 17:00							
16-Jun-06	Friday						
9:30 - 10:45	Battushig, A.	Office Manager, German Financial Cooperation	KfW	99118240	315950	kfw_mongolia@gmx.net	Roger
12:00 - 13:00	Naranbaatar, U.	Chief Information Officer & Head of IT	Xacbank	318185, 99111588	328701	naranbaatar.u@xacbank.mn	Roger
	Gerelmaa, Yu.	Chief Credit Officer	Xacbank	318185	328701	yu.gerelmaa@xacbank.mn	
Lunch break							
14:15 - 15:30	Erdenebayar, G.	Director, Legal Division	Bank of Mongolia	322052	311471	erdenebayar@mongolbank.mn	Roger
15:45 - 17:00							
19-Jun-06	Monday						
9:30 - 10:45							
11:00 - 12:15							
Lunch break							
15:00-16:00	Demberel S.	Chairman	MNCCI	99095154	327176		Roger
15:45 - 17:00							

Time	Name	Position	Organization	Phone	Fax	e-Mail	Participants
20-Jun-06	Tuesday						
9:30 - 10:45	Daniel Mahoney	Attorney	Lynch & Mahoney Law Firm	99115542	325358	mahoney@magicnet.mn	
11:30 - 12:15	Sharavsambuu	Acting Chairman	Financial Regulatory Commission				
Lunch break							
15:00 - 16:30	Byung Kyoon Jang	Resident Representative	IMF				
15:45 - 17:00							
21-Jun-06	Wednesday						
9:30 - 10:45	Ganbaatar, J.	Director	Supervision Department, Mongolbank	328482	311471	iganbaatar@mongolbank.mn	Roger
11:00 - 12:15							
Lunch break							
14:15 - 15:30							
15:45 - 17:00							
22-Jun-06	Thursday						
9:30 - 10:45							
11:00 - 12:15							
Lunch break							
14:15 - 15:30							
15:45 - 17:00							
23-Jun-06	Friday						
Lunch break							
15:00 - 16:30	Ganbaatar, J.	Director	Supervision Department,	328482	311471	iganbaatar@mongolbank.mn	Roger

Time	Name	Position	Organization	Phone	Fax	e-Mail	Participants
26-Jun-06	Monday		Mongolbank				
11:00 - 13:00	Batkhuuag, B.	Director of New Asia, President of the NBF Association	New Asia, Co., Ltd.,	322760	322024	batkhuyag@newasia.mn	Roger, Ashidmaa
	Chimgee, D.	Loan Officer	ABTS	95157616	no fax	abts1@mobi.net.mn	
	Gantogtokh, N.	Accountant	Itgel Business	316475	no fax	itgel-business@chinggis.mn	
	Oyun, J.	Loan Officer	Sar Shine	326307, 99080842	326535	eegie_2001@yahoo.com	
	Amartuvshin, S.	Loan Officer	Hugjil Finance	329753, 99086769	329753	tuvshee_df@yahoo.com	
Lunch break							
16:00 - 17:30	Ganbaatar, J.	Director	Supervision Department, Mongolbank	328482	311471	iganbaatar@mongolbank.mn	Roger
27-Jun-06	Tuesday						
14:30 - 15:45	Armin Fach	Chief of Party	GTZ Bank Training Project	324149, 99113120	312641	armin.fach@gtz.de	Roger
Time	Name	Position	Organization	Phone	Fax	e-Mail	Participants
6-Jun-06	Tuesday						
15.30 - 16.30	Maaike Van Hoeflaken	Project Director	IFC Leasing Project	459607	459651	mvanhoeflaken@ifc.org	Roger, Ashidmaa
7-Jun-06	Wednesday						
9:00 - 10:30	Ganbaatar, J.	Director	Supervision Department, Mongolbank	328482	311471	iganbaatar@mongolbank.mn	Roger, Ashidmaa

ANNEX E: PRO FORMA CIB INCOME STATEMENT AND CASH FLOW ANALYSIS

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I. INCOME per month (in thousand tugrug)

Name	Average number of inquiries per month	Price of each inquiry	Income	Price of each inquiry	Income	Price of each inquiry	Income
Banks	11,422	200	2,284.40	500	5,711.00	1,000.00	11,422.00
NBFIs	1,425	200	285.00	500	712.50	1,000.00	1,425.00
TOTAL	13,047	200	2,609.40	500	6,523.50	1,000.00	13,047.00

II. OPERATING EXPENSES per month (in thousand tugrug)

1. Staff costs (for 3 employees)

Salaries	702.00
Bonus	234.00
Allowances for lunch and transportation	135.00
Contribution to social and health fund	133.38
2. Depreciation of equipment (20%)	246.70
3. Rent	936.00
4. Utilities	30.00
5. Communication	50.00
6. Maintenance of computer	170.00
7. Stationery	102.50
8. Other operating expenses	50.00

Total Expenses	2,789.58		
NET INCOME	-180.18	3,733.92	10,257.42

CIB CASH FLOW ANALYSIS AND NPV

(Thousands of tugrug, unless otherwise indicated)

	2006/1	2006/2	2006/3	2006/4	2007/1	2007/2	2007/3	2007/4
Total Income	13,200	13,596	14,004	14,424	14,857	15,302	15,761	16,234
Costs & Expenses	10,149	10,352	10,559	10,770	10,986	11,205	11,429	11,658
<i>Staff related</i>	2,445	2,494	2,544	2,595	2,647	2,699	2,753	2,809
<i>Depreciation</i>	738	753	768	783	799	815	831	848
<i>Rent</i>	4,500	4,590	4,682	4,775	4,871	4,968	5,068	5,169
<i>Utilities</i>	90	92	94	96	97	99	101	103
<i>Repair & Maintenance of the System</i>	1,320	1,346	1,373	1,401	1,429	1,457	1,487	1,516
<i>Other</i>	1,056	1,077	1,099	1,121	1,143	1,166	1,189	1,213
Pre-tax profits	3,051	3,244	3,445	3,654	3,871	4,097	4,332	4,576
<i>Tax Expenses</i>	458	487	517	548	581	615	650	686
After Tax Profits	2,593	2,757	2,928	3,106	3,290	3,483	3,682	3,890
Cash Flows	3,331	3,510	3,696	3,889	4,089	4,297	4,513	4,738

Assumptions:

<i>Number of Inquiries (as of 2006/1)</i>	11,000
<i>% growth of Inquiries (per quarter)</i>	3%
<i>Charge per inquiry (MNT)</i>	400
<i>Inflation (per annum)</i>	8%
<i>Tax Rate</i>	15%

Price of the Project

<i>Required Rate of Return (per annum)</i>	20%
<i>Net Present Value of cash flows</i>	105,944

Sensitivity Analysis

	Change	Price Change (%)
<i>% growth of Inquiries</i>	by 1%	22%
<i>Charge per inquiry</i>	by 10 MNT	3%
<i>Inflation</i>	by 1%	3%
<i>Tax Rate</i>	by 1%	1%
<i>Required Rate of Return</i>	by 5%	1%