SEMINAR SUMMARY

«Microfinance: International Regulation, Practice and Innovations»

October 12-14, 2010, Mongolia

In cooperation with

The Ministry of Foreign Affairs of the Netherlands

Oesterreichische Entwicklungsbank AG (OeEB)
The Development Bank of Austria
Foreword

IFC in cooperation with Mongolia Financial Regulatory Commission and Microfinance Development Fund organized a study tour in Mongolia on microfinance-related policy for 14 policymakers from Azerbaijan, Bosnia and Herzegovina, Kazakhstan, Kyrgyz Republic, and Tajikistan.

The tour from October 12-14, 2010 acquainted policymakers with international best practices and enabled them to further improve the legal framework in their respective countries. It was supported by the Ministry of Foreign Affairs of the Netherlands, the Development Bank of Austria (OeEB), and led by the IFC Azerbaijan & Central Asia Microfinance Transformation Support Project.

During the tour, participants studied a microfinance institution’s successful transformation into a bank, best practices and innovations in the microfinance sector, and also met with senior government officials of Mongolia. They also were the first to get results of a report, Comparative Analysis of Microfinance Policy Frameworks and Legislation of Selected Countries, initiated by IFC.

Some Participants’ Opinion about the Seminar

“The purpose of the study tour was to learn legislative and legal framework of microfinance in Mongolia. Moreover, we saw examples of how modern information technologies allow providing financial services in remote areas and help increase welfare of the population through financial inclusion.”

Mr. Samatbek Djumashev, Chief for Non-banking Organizations Control Division of the National Bank of the Kyrgyz Republic

“We are thankful for the seminar, which at this stage of development of the banking system in Tajikistan will help to open mobile banking as a new product of microfinance institutions. We hope to implement such activity of banks in our country. Experience exchange with other countries is helping us in our work to supervise microfinance institutions.”

Ms. Barno Bazarova, Senior Economist of License and Readjustment Department of the National Bank of Tajikistan

“The seminar gave an opportunity to see a successful example of XacBank in their transformation from non-banking financial institution into a bank with ambitions and plans for regional expansion. It would be great together with IFC to repeat the same example in Kazakhstan.”

Mr. Janybek Iskakov, Deputy Chief of Social Economic Monitoring Department of the President Administration in Kazakhstan
CONTENTS

Objectives of a Study Tour ........................................................................................................... 4
Why in Mongolia? ........................................................................................................................... 4
Participants ..................................................................................................................................... 5

Objective 1. To facilitate learning between policymakers and regulators of Azerbaijan, Bosnia and Herzegovina, Kazakhstan, Kyrgyzstan, Tajikistan, on the challenges of growth and transformation for microfinance institutions based on experience of Mongolia

XacBank transformation ................................................................................................................. 6
FIELD VISITS to XacBank branch ............................................................................................. 8

Objective 2. To learn about leasing and innovations such as mobile banking

Leasing Regulation in Mongolia ................................................................................................. 9
Mobile banking ............................................................................................................................ 10
FIELD VISITS to mobile operators ......................................................................................... 10

Objective 3. To facilitate a dialogue between policy makers and MFIs to establish a legal framework that may allow MFIs to implement their transformation plans

Country Discussion .................................................................................................................... 11
Press conference ......................................................................................................................... 14
Organizers ................................................................................................................................. 15

Annex. Agenda
Objectives of the Study Tour

1. To facilitate learning between policymakers and regulators of Azerbaijan, Bosnia and Herzegovina, Kazakhstan, Kyrgyzstan, and Tajikistan on the challenges of growth and transformation for microfinance institutions, based on experience in Mongolia;
2. To learn about leasing and innovations such as mobile banking;
3. To facilitate a dialogue between policymakers and MFIs to establish a legal framework that may allow MFIs to implement their transformation plans.

Structure of the Event

At the 3-day event, participants had a chance to hear presentations and case studies, participate in regulatory debates, discuss comparative analysis policy frameworks and regulation of selected countries, plan actions to improve environment for the microfinance sector in their countries, learn leasing and innovations such as mobile banking, and see results of transformation and implementation of innovations in action by visiting a XacBank branch and MobiFinance company. Agenda of the event is attached in Annex 1.

Why in Mongolia?

“Mongolia is an excellent example to show to government and central bank officials how their countries can benefit from a well-developed microfinance sector and how local microfinance institutions can diversify and expand financial services to their customers through a successful transformation into a bank,” said Rolf Behrndt, Regional Business Line Leader for Financial Markets of IFC Advisory Services in Eastern Europe and Central Asia.

MONGOLIA:

Country Profile

- Area: 1.56 million sq km, the size of Western Europe
- Population: 2.8 million (the third-lowest population density in the world: 39.1% in rural areas, 32.2% poverty rate, 38% live as semi-nomadic herders
- GNP per capita: $1,670 as of 2008

Financial System Snapshot

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<td>- 12 Banks closed down with an estimated 40% of all bank loans classified as non-performing</td>
<td>- Bank sector restructuring</td>
<td>- Commercial Banks 14 (incl. 2 MF Banks)</td>
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<td>- Pawnshops charging up to 30% per month</td>
<td>- Microfinance launched</td>
<td>- Savings and Credit Cooperatives 207</td>
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<td>- Donor-driven lending projects and government directed lending through banks</td>
<td>- First seven Non-Bank Financial Institutions registered in 1998-1999</td>
<td>- Non-Bank Financial Institutions 184</td>
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<td></td>
<td>- First Savings and Credit Cooperative registered in 1996</td>
<td>- Pawnshops 800</td>
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<td>- Insurance Companies 16</td>
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<td>- Mongolia is widely recognized as a world leader in microfinance.</td>
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<td>- 57.6% market penetration of households in lending</td>
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Participants

Azerbaijan

Mr. Ramin Talibli,
Office of Cabinet of Ministers of the Republic of Azerbaijan

Mr. Ayaz Chaparli,
Specialist, Non-Bank Credit Institutions Supervision Division, Central Bank of Azerbaijan

Ms. Jhale Hajiyeva,
Executive Director, Association of MFI in Azerbaijan (AMFA)

Bosnia & Herzegovina

Mr. Zlatko Barš,
Head of Banking Agency in the Federation of Bosnia and Herzegovina

Mrs. Amra Barš,
Coordinator for Banking Supervision, Central Bank of Bosnia and Herzegovina

Ms. Slavica Injac,
Head of Banking Agency in Republic Srpska

Kazakhstan

Mr. Janybek Iskakov,
Deputy Chief of Social Economic Monitoring Department President Administration

Ms. Aynash Tashimova,
Senior Consultant, Finance and Budget Committee, of Parliament of Kazakhstan

Mr. Anatolyi Glukhov,
Director, Association of MFI of Kazakhstan

Kyrgyz Republic

Mr. Samatbek Djumashev, Chief for Non-banking Organizations Control Division, National Bank of the KR

Mr. Emil Saryazhiev,
Chief for Bank Licensing Division Methodology and Licensing Control Department, National Bank of the KR

Mr. Sergey Ibragimov,
Acting Chief of Legal Department, National Bank of the Kyrgyz Republic

Tajikistan

Ms. Barno Bazarova,
Senior Economist, License and Readjustment Department, National Bank of Tajikistan

Mr. Abdusamat Nurov,
Senior Economist, Non-banking Financial Organizations Control Department, National Bank of Tajikistan
Objective 1. To facilitate learning between policymakers and regulators of Azerbaijan, Bosnia and Herzegovina, Kazakhstan, Kyrgyzstan, and Tajikistan on the challenges of growth and transformation for microfinance institutions based on experience in Mongolia.

There were three presentations about experience in Mongolia of microfinance sector development and microfinance regulation and legislative framework.

Five case studies were presented: ABTS NBFI, Moncord Credit Union, XacBank, and KHAAN Bank.

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### Case Study: XacBank

**SNAPSHOT 1: Evolution in Systems Thinking** *(From the presentation of Mr. Robert Cater, First CEO of the XacBank)*

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<th>Microcredit</th>
<th>Microfinance</th>
<th>Inclusive Finance</th>
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<tr>
<td>- Savings,</td>
<td>- Policy Environment</td>
<td></td>
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<td>- Loans,</td>
<td>- Legal Environment &amp; Enforcement</td>
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<td>- Transfer / Payments</td>
<td>- Regulation &amp; Supervision</td>
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<td>- Savings, Loans, Transfer / Payments</td>
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<td>- Insurance</td>
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<td>- Second-Tier (Mortgage, Insurance, Rating, Credit)</td>
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**Enabling Environment**

- **Macro-economic stability:** Essential to Success
- Holistic commitment to the social purpose of Inclusive Finance, plus voice of consumers
- Adjustment of supervisory standards for “pro-poor” services (MixMarket)
- Government goodwill and leadership is essential
- Clear oversight of corporate governance and social responsibility is key
- Zero tolerance toward corruption
- Avoid regulatory capture by building systems for inclusion of voice of consumer
- Donors should follow, not lead a National Policy.

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### Case Study: XacBank

**SNAPSHOT 2: XACBANK: Experience in Transformation From A Development Project To A Commercial Bank** *(From the presentation of Mr. Bold Magvan, Chief Executive Officer of XacBank)*

**XacBank is Pioneering:**

- First among Mongolian commercial banks to meet the international standards in financial reporting (CGAP Awards 2004, 2005, 2006)
- First Mongolian bank to commit to sustainability reporting (to apply GRI Sustainability Reporting Guidelines in its 2006 AR)
- First commercial bank to request and receive high international rating scores (Planet Rating 2004, 2006, Moody’s Investor Service rating 2006)
- Leading a new initiative in Corporate Social Responsibility by example (XAC NGO, donations, sponsorships, grants, etc.)

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### Some Facts about XacBank

- 81,457 active borrowers
- 94.6 thousand XacMasterCard holders
- 63 franchisee savings and loan cooperatives
Today XacBank is the Dynamic Leader of Change in Corporate Behavior and Social Responsibility

### Historical Highlights

- Jan 2010: 4th largest bank of Mongolia
- Nov 2007: Two IFIs as new shareholders
- Jul 2005: Attracted three international investors
- Dec 2001: Received its banking license
- Oct 2001: Merger agreement signed
- Sep 2000: Merger discussions initiated
- Apr 2000: Goviin Ehlel LLC—licensed (Mercy Corps, USAID)
- Sep 1999: X.A.C. LLC was licensed as the first NBFI in Mongolia
- Sep 1998: X.A.C. - started under UNDP MicroStart-Mongolia project

### Why Bank?
- Wider access to local funding sources
- Increased leverage (economy of scale)
- Greater outreach in shorter period
- Savings as a vehicle to fully achieve the mission
- Economies of scope (product diversity)
- Increased competitiveness and viability
- Better service to the customer
- More credibility in the market
- More attractive to investors

### Lessons Learned
- Negotiations take time and efforts and are distractive to running of the institution
- Fraud in one branch – do not lose focus on operations during the transformation process
- Co-CEOs do not work well, however well-intended
- MIS transition is costly and time consuming, albeit of utmost importance in the long run
- Transformation costs are high and not obvious
- Merging cultures is difficult – people’s merger
- Resistance to change (internal and external)

### Transformation …(r)evolution
- The competition will inevitably intensify; make a decision at right time
- The biggest decision to ever make – cannot afford to make a mistake?
- However, the decision cannot be avoided?
- Implementation is costly and time consuming
- If done right, results are rewarding, but cannot get complacent as there are even more challenges to overcome

### Borrower Statistics

**Breadth of Outreach:**
- Active loans for less than:
  - $300: 35.8%
  - $1,500: 77.8%
  - $5,000: 93.7%

**Active borrowers**
- Women borrowers: 53.1%
- Rural borrowers: 53.7%

**Average loan balance:**
- Micro Business Entrepreneurs: $2,017.5
- Small and Medium Enterprises: 21.8%
- Salaried People: 2.3%
- Herders: 16.4%
- Other: 0.6%
- Total: 58.9%
RECOGNITION & AWARDS

- “Social Responsibility Leader” - Mongolian Management Association 2010
- Silver Category in Social Performance Reporting Award from CGAP of World Bank.
- "Excellency in Green Development" award from MNCCI for Eco friendly operation of the bank, 2009
- “Top Corporate Social Responsibility” - MNCCI, 2006
- “Best Corporate Governance” - MNCCI, 2006
- CGAP PPIC award, “Innovative Microfinance Product” - UNDP, 2005
- “Five Diamonds” - The MIXMarket, 2004
- “A” Rating - PlanetRating, 2004, 2006
- “Best Company” - MNCCI, 2003, 2004
- “Best Supporter of Small and Medium Enterprises” - Mongolian National Chamber of Commerce and Industry (MNCCI), 2001

The session ended with a regulatory debate where three practitioner panelists took different positions to discuss the respective pros and cons of their positions with a view to facilitate a fresh look at what would be an appropriate regulatory framework: government and industry self-regulation.

“I liked the most session on Regulatory Debate, which was well designed and formulated and provide an opportunity to brainstorm, analyze pros and cons of different platforms.”

Ms. Jhale Hajiyeva, Executive Director, Association of MFI in Azerbaijan (AMFA)

FIELD VISIT: XacBank Branch

The participants visited a branch of XacBank to learn results of transformation and innovations.

About XacBank Branch

The XacBank Branch was created in 2003 and located 35 km from UlaanBaatar with population of 30,000 people or 8,000 households. There are 6 sub-districts and 10 government/public agencies such as a school and a hospital. There are several types of businesses in the district, mainly related to the chain of enterprises around coal mining, such as extraction, construction, infrastructure, concrete sales (seasonable business), and brick production.

XacBank provides such banking services as loans, deposits, exchange, cash operations, and mobile banking.

There are now 25 staff members, including Branch Manager, Relationship Manager, 6 Customer Service Reps, 1 Accountant, 6 Tellers, 1 Compliance Officer, 3 Administrative Officers, and 4 Security Officers.

“The most remarkable impression was related to field visits of XacBank and MobiFinance.”

Mr. Abdusamat Nurov, Senior Economist, National Bank of Tajikistan
Some statistics:
Loan portfolio: 5.5 billion Mng tugriks – 2,400 loans
Average loan size $2,000 - $5,000
In average there are 10 loans per 1 day

Deposits: 2 billion Mng tugriks deposits
Deposit accounts - 7,000
Average deposit size $150 - $300

Objective 2. To learn about leasing and innovations such as mobile banking

There were 3 presentations: about mobile banking, leasing, and rural finance, accompanied by a field visit to one mobile company and demonstration of AMAR mobile services.

SNAPSHOT 3: Leasing Regulation in Mongolia (From presentation of Mr. Jargalsaikhan Dambadarjaa, CEO of XacLeasing)

In July 2004, the IFC launched a Leasing Development Project in Mongolia and thereby resumed discussions on leasing legislation. The Financial Leasing Law was adopted in 2006 in light of differences between International Leasing Accounting Standards and loan accounting standards. The new law gave a definition of financial leasing and thereby clarified the difference between financial leasing and asset rental and other contracts set forth in the Civil Code.

- Accounting principles of financial leasing (depreciation, rent or interest)
- VAT
  - Sales income 10%
  - Indirect tax borne by consumers
  - Burden in case of non-VAT assets

XacLeasing (www.xacleasing.mn)
SNAPSHOT 4: Mobile Banking

The mobile banking charge has been led by mobile network operators and, to a lesser extent, large banks. MFIs understand the potential of mobile banking; they have struggled to see how they can take advantage of it.


Requirements to the services:
- The e-money service provider shall convert cash equivalent to up to 50% of its equity into e-money.
- The e-money service provider shall maintain liquid assets equivalent to at least 40% of total e-money volume. The following are deemed as liquid assets:
  - Savings with banks
  - Treasury securities
- Requirements to holders of e-wallet:
  - Ceiling per transaction: MNT 100,000
  - Ceiling on transaction volume per day: MNT 500,000

Regulatory framework and improvements required for engaging in financial services using mobile communications infrastructure:
- Certification of e-signature
- Verification of electronic transactions and payments, and documents
- Standards and rules for assessing information security and reliability of the system operations
- Restrictions under the provisional Regulation on E-money Services

FIELD VISIT: MobiFinance

The participants of the study tour had an opportunity to see how mobile banking operates by explaining the process of transactions through AMAR services.

Мобифинанс

MobiFinance is a non-bank financial institution that will open e-money accounts for cell phone users and offer specific financial services through these accounts.

Мост Мол

Most Money is an innovative and comprehensive payments and settlements service with highest security, allowing access to financial services by individuals with and without bank accounts using their cell phones, regardless of their location and time. Access the Most Money services site at www.mostmoney.mn.
AMAR Services

AMAR is an agent network of 800 agent locations to launch in hard-to-reach areas. It is a real banking channel for low income people who live in rural areas.

AMAR Services was officially launched in on July 2, 2009 as a cheap and flexible mobile banking with practical usage throughout Mongolia by providing all basic banking services (24/7 service) and functional through all mobile operators. It is a cheaper alternative for nomads who live far from settlement centers; service types can be added or modified anytime, and secured through innovative logical ideas.

Objectives of AMAR Services:
• To make Mobile banking practical throughout Mongolia
• Access from hard-to-reach areas
• Access to financial services
• Serve the low income and unbanked people
• Empower the poor by giving them freedom of financial services
• To extend the banking service to those who are unbanked and have no access to financial services
• To decrease the cost of banking services compared to traditional banking channels; selected by 9 out of 70 participant from 38 countries

Some statistics:
Number of Clients 46,018 (as of September 2010)
Number of Agents 2,961

Objective 3. To facilitate a dialogue between policymakers and MFIs to establish a legal framework that may allow MFIs to implement their transformation plans

Country Discussion

Azerbaijan

Mr. Ayaz Chaparli, Specialist, Non-Bank Credit Institutions Supervision Division, Central Bank of Azerbaijan

Mongolia is a perfect example of microfinance development. I think that upon return to my country we will try:
1. To review a point of renewing ownership structure with the adoption of new law of provision of credit services provided by non-bank financial institutions that had no exchange of credit information. Currently we do not have credit bureau, but we are working on it.
2. To implement prudential norms as we see from experience of Mongolia; microfinance supervision of non-banking organizations should be restricted.

Ms. Jhale Hajiyeva, Executive Director, Association of MFI in Azerbaijan (AMFA)

I think that we will collaborate with the Central Bank. It would be beneficial if the Central Bank will have a dialogue with the microfinance sector in a participatory way, so that there would be an opportunity for the respective departments to learn the practical consequences of the each of the new amendments they are planning to implement.
Bosnia and Herzegovina

Mr. Zlatko Bars, Head of Banking Agency in the Federation of Bosnia and Herzegovina

In our delegation we are discussing possible measures we can take in our countries. The first measure can be restructuring and consolidation of the microfinance sector. Microcredit organizations (MCOs) must consolidate and strengthen their internal systems and pay attention to continuous staff training. They should also review the existing loan products and create new products that better suit the needs of their clients. MCOs have to go into merger processes to provide better services to their clients and make higher capital base and credit potential.

The second measure is to improve governance. Our recommendation to microfinance organizations would be to follow the rules for corporate governance for banks. The third measure is to define ownership. A special problem is who will protect and represent donors’ capital (22% of total capital + 41.5% surplus income). The fourth measure concerns activities on credit portfolio. MCOs have to take measures on their portfolio that include loan rescheduling, extension of a grace period, close monitoring of client performance, and joint client visits and workouts. MCOs also have to return to basic lending methodology as preventive measures and to original target market, introduce higher eligibility criteria for new loan applicants and assessment of repayment capacity. Also, close loan monitoring is very important.

The fifth important measure concerns transformation into a commercial company (profit form). In that case each MCO will have defined ownership structure and will attract new potential investors. The sixth measure will be to support donors and creditors, especially international ones. In the next period, social investors and developing financial institutions can play an important role in selective financing based on developing indicators of MCOs, followed by the obligation to maintain stabile institutional (development) indicators. Furthermore, social investors and international development institutions should provide technical assistance to partner or all MCOs in the transformation period of forming commercial MCCs.

Kazakhstan

Mr. Anatolyi Glukhov, Director, Association of MFI of Kazakhstan

The seminar was quite informative for all our delegation. Now the legislative bodies are considering measures and amendments to the current legislative framework in the country. We have state programs designed to promote further development of financial intermediaries through credit organizations.

All topics we considered during the two days of the seminar were informative and useful. Before coming to the seminar we had discussed these ourselves: we used to have plans to further develop the microfinance sector. I am pleased that our vision, how we see development of the sector, coincides with the global development trend.

On my behalf I want to highlight three key factors to use:

1. MCOs should be supervised by state, but the level of regulation should be adequate to the risks that the sector has.
2. Microfinance institutions should diversify their activity.
3. In order for microfinance organizations to have alternative to grow, legislation should consider measures and framework of transformation to follow. This includes developing a legislative framework for those institutions that would reach potential growth, and to create a legislative mechanism to transform easily, at least to the position of a microfinance bank.
**Mr. Janybek Iskakov**, Deputy Chief of Social Economic Monitoring Department President Administration

I want to thank IFC for organizing the useful seminar. In spite of having only two days of work it comprised a lot of useful things. For us - representatives of regulators, members of the Parliament, Presidential Administration, it was very useful to see how microfinance is developing in the whole region. We have a clear vision how the sector of financial services need to be developed. The experience of Mongolia is very useful. I believe that we are going to apply the knowledge that we get from the seminar in our activities.

**Kyrgyz Republic**

**Mr. Samatbek Djumashev**, Chief for Non-banking Organizations Control Division, National Bank of the Kyrgyz Republic

We are going to implement change in our country. Now in the Kyrgyz Republic there are two processes going on:

2. We are working on the main principles of regulation and supervision.

Within the framework of the above mentioned state programs we will try to implement what we have learned from the seminar. We see that any MFI either before or after transformation, in any case, naturally, they understand more the problems of the country, problems of remote areas. We saw examples of XacBank how well they are doing in reaching the main goal to provide access to finance. As regulators we are going to think about the process of transformation, how to develop a legislative framework for smooth transformation.

As to new types of activity we are thinking in 1-2 years to introduce money transfers and providing loans in hard currency. Before that MFIs provided loans only in local currency, and exchange operations. In the mid-term strategy it would be good to consider implementation and introduction of new innovative products like electronic money.

As to supervision strategy: there are more than 600 MFIs and credit unions. I think there should be measures to consolidate the sector; in practice, it would be measures to increase the capital base. It will allow merging private microfinance sector. As to cooperatives, we think that we need to transfer from the methods of direct supervision to self-regulation. Such changes will create an opportunity for cooperatives to increase their capacity.

As for the operations, we should think why deposit activities are not taking place in the Kyrgyz Republic. Probably there are responses – we need to think how credit unions and MFIs access the state fund for deposit protection.

**Tajikistan**

**Ms. Barno Bazarova**, Senior Economist, License and Readjustment Department, National Bank of Tajikistan

We would like to thank IFC for the informative and useful seminar. In Tajikistan now we are working on amendments to the existing Microfinance Law about new products such as mobile banking and Islamic banking. At present the draft law is circulated at Ministries and State agencies.

We will try to conduct a presentation for our colleagues and introduce new products in Tajikistan.

Three credit unions are in the process of transformation into commercial entities due to requirements of increasing the charter capital and went through the procedures of transformation. They changed structure and now they are micro deposit organizations. The process is going on.
PRESS CONFERENCE

The press conference was organized on the first day of the event. Some 10 mass media representatives from Mongolia attended, mostly from local newspapers, TV, and news agencies. The event was broadcast / published in Mongolian.

Attended Mass Media

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<tr>
<th>Media</th>
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<tr>
<td>Mongolian News</td>
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<tr>
<td>Ундэсний шуудан</td>
<td>Mongolian</td>
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Business Times

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Speakers

1. Mr. Bayarsaikhan, Chairman, Financial Regulatory Commission
2. Mr. Bayarsaikhan, Head, Microfinance Development Fund
4. Mr. Samatbek Djumashev, National Bank of the Kyrgyz Republic
5. Ms. Jhale Hajiyeva, Executive Director, Association of MFI in Azerbaijan (AMFA)

Moderator: Mrs. Gaamaa Hishigsuren, IFC

“Microfinance is recognized as an effective tool in improving the livelihoods and reducing the vulnerability of low-income individuals, especially in rural areas where financial services are limited. Every country has its own methodology and strategy in microfinance sector. Sharing knowledge and experience of Mongolian microfinance development with other countries will aim at filling the gaps left by existing microfinance programs and services in the region.”

Mr. Bayarsaikhan, Executive Director of Microfinance Development Fund

“Microfinance experience in Mongolia is well known in our countries. In the Kyrgyz Republic XacBank invested in joint company “Mol Bulak,” which has demonstrated good results and an innovative approach. That is why a case of successful microfinance development in Mongolia is very interesting for regulators representing the National Bank of the Kyrgyz Republic.”

Mr. Samatbek Djumashev, Chief for Non-banking Organizations Control Division of the National Bank of the Kyrgyz Republic

“I would like to thank IFC for enabling AMFA to benefit from such a great seminar, which enabled us not only to expand our knowledge in the field of innovative products such as mobile banking, transformation and leasing, but also to establish good connections with Government regulatory bodies in neighboring countries and discuss with them common challenges and good practices, which was mutually beneficial and useful.”

Ms. Jhale Hajiyeva, Executive Director, Association of MFI in Azerbaijan (AMFA)

“Mongolia can serve as a successful showcase to demonstrate to government and central bank officials how their countries having similar backgrounds can benefit from a well-developed microfinance sector and how local microfinance institutions can diversify and expand financial services to their customers through innovations and successful transformation.”

Mrs. Cholpon Kokumova, Project Manager of the IFC Azerbaijan & Central Asia Microfinance Transformation Support Project
Organizers

IFC

Mrs. Gaamaa Hishigsuren
Mrs. Cholpon Kokumova
Mrs. Assel Choibekova
Ms. Kristina Ladonina
Ms. Medina Aldabergenova

About IFC
IFC, a member of the World Bank Group, is the largest global development institution focused on the private sector in developing countries. We create opportunity for people to escape poverty and improve their lives. We do so by providing financing to help businesses employ more people and supply essential services, by mobilizing capital from others, and by delivering advisory services to ensure sustainable development. In a time of global economic uncertainty, our new investments climbed to a record $18 billion in fiscal 2010. For more information, visit www.ifc.org.

Donor Partners
The project’s activity in Azerbaijan and Central Asia is supported with funds from the Ministry of Foreign Affairs of the Netherlands. For more information, visit www.minbuza.nl

The project’s activity in the Kyrgyz Republic and Tajikistan is supported with funds from Oesterreichische Entwicklungsbank AG (OeEB), a private finance institution mandated by the Government of Austria to act as the official Development Bank of Austria. For more information, visit www.oeeb.at/en

About FRC
The Financial Regulatory Commission (FRC) of Mongolia was established under the Law on legal status of Financial Regulatory Commission on January 25th, 2006 appointing its Chairman and Commissioners by the Parliament. Within its powers, the Commission is authorized to undertake activities of enforcing the legislations related to financial services, approving rules, procedures, and guidance, granting, suspending, revoking, and terminating the licenses of financial activities, monitoring the implementation of license requirements, and the other activities described in related laws. More than 1,000 legal entities such as entities participating on the securities market, commercial insurance organizations, non-bank financial institutions, and savings and credit cooperatives are regulated by the FRC. For more information, visit www.frc.mn

About MDF
Micro Finance Development Fund (MDF) was founded in 2002 in the framework Micro Finance Outreach of Sustainable Livelihoods Project, which is jointly implemented by the Government of Mongolia and International Development Association of the World Bank, in order to expand the provisions of financially and institutionally sustainable micro-finance services in the project selected areas through commercial banks and non-bank financial institutions. MDF provides whole sale, long term and non-collateralized loans and additional non-financial services to rural Mongolia in order to support the development of microfinance field. For more information, visit www.mdf.mn
NATIONAL PERFORMANCE

The participants had a unique opportunity to see a national performance. “On the social side, it was very well presented with Mongolian national food and performance.”

Mr. Ayaz Chaparli, Specialist of Non-Bank Credit Institutions Supervision Division, Central Bank of Azerbaijan
Annex

AGENDA
«MICROFINANCE: INTERNATIONAL REGULATION, PRACTICE AND INNOVATIONS»

Date: October 12 – 14, 2010
Time: 9:00 – 17:00
Venue: Chingiz Khan Hotel, Ulaanbaatar, Mongolia

<table>
<thead>
<tr>
<th>DAY 1</th>
<th>MICROFINANCE IN MONGOLIA</th>
</tr>
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<tbody>
<tr>
<td>08:30-09:00</td>
<td>Registration</td>
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| 09:00-9:30 | Introduction and Welcome Remark  
**Mr. Bayarsaikhan**, Chairman, Financial Regulatory Commission  
**Mr. Bayarsaikhan**, Head, Microfinance Development Fund  
**Mr. Sergii Tryputen**, Operations Officer, IFC Mongolia office  
**Ms. Gaamaa Hishigsuren**, IFC Access to Finance Microfinance Advisory  
**Ms. Cholpon Kokumova**, IFC, Microfinance Transformation Support Project |
| 09:30-10:00 | The case of Mongolia: From a failed banking system to a global example of success in inclusive finance  
**Robert Cater**, International expert in micro and rural finance. First CEO of the XAC, NBFI  
Evolution of microfinance from its infancy in 1998 to its current stage of growth in 2010. Challenges in the development process and their overcoming.  
Types of financial institutions providing microfinance services. Unique factors in Mongolia and trend for the future. |
| 10:00-10:30 | Present regulation and legal framework for NBFI and credit unions  
**Ms. Oyunchimeg Nergui**, Head of Microfinance Department, Financial Regulatory Commission  
Regulatory and supervision framework for microfinance activities in Mongolia.  
Types of legal entities serving microfinance clients.  
Requirements and processes for obtaining a NBFI license.  
Difference in regulating and supervising NBFI and credit unions. |
| 10:30-11:40 | Coffee break  
Press Conference (see attached) |
| 11:00-11:40 | Case study of NBFI: ABTS  
**Ms. Chimgee Luvsandorj**, Board Chairman, ABTS  
How does NBFI differ from commercial banks in serving microfinance clients? What types of services offered? Who does it reach? What are the limitations? What are the advantages? What are the regulatory and supervision requirements? |
| 11:40-12:10 | Case study of Credit Union: Moncord  
**Ms. Rita Mijiddorj**, Executive Director, Moncord  
How does a credit union differ from commercial banks in serving microfinance clients? What types of services offered? Who does it reach? What are the limitations? What are the advantages? What are the regulatory and supervision requirements? |
<p>| 12:10-12:40 | Lunch |</p>
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<th>Session</th>
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| 14:00-14:30 | **Commercial bank case: XacBank transformation from NBFI to commercial bank**  
*Mr. Bold Magvan*, Chief Executive Officer of XacBank, former Deputy Governor of Bank of Mongolia  
Lessons learned during the transformation of Xacbank from NBFI to a commercial bank. Challenges in the process of transformation, keys to success. |
| 14:30-15:00 | **Present regulation and supervision: commercial banks offering microfinance in Mongolia**  
*Mr. Lkhagvasuren*, Head of Supervision Department, Bank of Mongolia  
Responsibilities of the Bank of Mongolia with respect to commercial banks serving microfinance clients. Current regulatory and supervision framework. Policy of Bank of Mongolia in supporting a healthy financial sector. Requirements that MFIs would have to comply with should they obtain a banking license. |
| 15:00-15:30 | **Case study: Commercial bank serving microfinance clients XacBank**  
*Mr. Soronzonbold*, Deputy CEO, Xacbank  
Xacbank evolution from UNDP microstart program to a commercial bank. Reasons and aims of the transformation. Key stages of transformation: from project to local finance company, to merger, to NBFI, to a commercial bank. Challenges at each stage and ways of their overcoming. Keys to successful transformation benefits and costs of transformation. Roll out of savings and deposits. Xacbank’s market position in the banking industry. |
| 15:30-16:00 | **Coffee break** |
| 16:00-16:30 | **Case study of state-owned bank transformation: KHAAN Bank**  
*Mr. Batsaikhan Daimaa*, KHAAN Bank  
Khan bank transformation from being a state-owned bank to a commercial bank serving microfinance clients. Reasons and aims of the transformation. Growth of outreach and services. Keys to success. |
| 16:30-17:10 | **A regulatory debate**  
*Robert Cater*, International expert in micro and rural finance. First CEO of XacBank  
*Mr. Tur-Od Lhagvajav*, Deputy Executive Director, XacBank  
*Ms. Doljinmaa Dorjpurev*, General Director, Achid Finance  
In order to better support Inclusive Finance, are Mongolian NBFI’s too heavily regulated? Three distinguished practitioner panelists will take different positions to discuss the respective pros and cons of their positions with a view to facilitate fresh new look at what would be an appropriate regulatory framework: government and industry self-regulation. |
<p>| 17:10-17:30 | <strong>Wrap-up</strong> |
| 19:00-22:00 | <strong>Welcoming Reception</strong> |</p>
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<th><strong>DAY 2</strong></th>
<th><strong>COMPARATIVE STUDY</strong></th>
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<td><strong>08:30-09:00</strong></td>
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| **9:00-9:40** | Comparative analysis of policy frameworks and regulation of selected countries: A transformation perspective  
*Ms. Gaamaa Hishigsuren*, IFC, Access to Finance Microfinance Advisory  
*Ms. Cholpon Kokumova*, IFC, Microfinance Transformation Support Project |
| **9:40-10:45** | Group discussion: sharing experience and exchanging lessons  
*Moderator, Gaamaa Hishigsuren, IFC*  
*In each group, one representative of each country*  
Importance of microfinance to the financial sector of a country.  
What is an appropriate number of MFIs in a country?  
Which types of MFIs NBFIs are encouraged for a healthy financial sector?  
What services do MFIs provide that banks don't?  
**How to support safe growth of MFIs?**  
What is the process of transforming into commercial entities?  
How do Central banks provide oversight / supervision over commercial MFIs?  
**How to provide additional expertise as MFIs grow?**  
How to introduce new shareholders?  
What is the best approach for dealing with 'social equity' (grant funds received from donors)?  
**If and how for MFIs to expand operations?**  
Which products should MFIs be allowed to offer?  
Does it make sense to allow deposits, and if so, under which conditions? |
| **10:45-11:15** | *Coffee break* |
| **11:15-12:30** | Group presentations  
Presentation of each group (15 minutes, including Q&A)  
Wrap up/summary |
| **12:30-13:30** | *Lunch* |
| **13:30-14:00** | Innovations to expand microfinance: mobile banking  
*Moderator: Ms. Oyunchimeg Nergui*, Head of Microfinance Department, Financial Regulatory Commission  
*Ms. Oyungerel Rentsen*, CEO of Mobi Finance  
*Mr. Damdinjav Dorjdambaa*, Director of Amar Service-Mobile Banking  
Mobile banking has a significant potential to bring vast numbers of the unbanked into a more formal financial system and revolutionize the way they manage their money. Yet although microfinance institutions (MFIs) have spent decades serving this clientele with loans and increasingly savings and other financial products, they have not featured prominently in this space. The mobile banking charge has been led by mobile network operators and, to a lesser extent, large banks. MFIs understand the potential of mobile banking, they have struggled to see how they can take advantage of it. Implications for regulation and supervision. |
Expanding financial services: Financial Leasing
Moderator: Mr. Dolgorsuren, Financial Regulatory Commission
Mr. Jargalsaikhan Dambadarjaa, CEO of XacLeasing
Mr. Samatbek Djumashev, Chief for non banking organizations control division, National Bank of Kyrgyzstan
Leasing – financial tool that helps microfinance institutions reach enterprises with needs that cannot be met by traditional microfinance approaches.
Institutional and regulatory requirements for offering leasing services. Lessons learned.

Role of Rural Finance Company
Ms. Doljinmaa Dorjpurev, Achid Finance Group
Rural Finance Company- as a privately owned community microfinance institutional model:
Features, products and services’ design; differences from other MFI's, values & perspective

Closing remarks
Mr. Bum-Erdene, Chairman of the Working Stream, Financial Regulatory Commission

Coffee break

Country Discussions and Next steps

DAY 3

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