

MONGOLIA

Progress Report 2011



MON/004 - FINANCIAL SECTOR CAPACITY BUILDING AND TRAINING PROJECT

1. SITUATION ON 31 DECEMBER 2010 AND MAIN 2011 CHALLENGES

MON/004 project, Financial Sector Capacity Building and Training Project, effectively started on 10 January 2011 with the fielding of the Chief Technical Adviser (CTA). LuxDev had received the execution mandate on 27 April 2010 and the Government of Mongolia had signed the bilateral protocol on 9 July 2010.

The main challenges of 2011 consisted of launching the project and respecting a relatively tight schedule due to the delay caused by the defection of the first recruited CTA (with a planned start in July 2010). It clearly appeared that needs for capacity building and training are important at all levels of the Financial Regulatory Commission (FRC), and happily for the institution, the scarcity of resources allocated by the State Budget is mitigated by the project's financial contribution. Limited resources need to be used efficiently and effectively. As all the needs could not be directly covered, an additional challenge was to determine where to intervene first.

Information gathered during the formulation phase showed that risks that could impair the deployment of the project were considerable and various. For instance, the project document did not preclude an Operational Partnership Agreement (OPA), for which an assessment had to be made in the beginning of the project.

2. RESULTS

MON/004 Project's implementation started rapidly, with the set-up of the project structure and the first meetings of the Technical Coordination Committee (TCC) between the counterpart and the project. As a reminder, there are two results defined by the project document:

- Result No. 1: Enhanced institutional and operational framework at the FRC; and
- Result No. 2: Strengthened regulatory and supervisory capacity at FRC.

Result 1: Enhanced Institutional and operational framework at the FRC

Concerning the result number 1, the most valuable achievements of the project are linked to the set-up of a new five years strategic plan for the FRC. This process is nearly completed at the end of 2011, wherein an *Agence de Transfert de Technologie Financière* – Financial Technology Transfer Agency – (ATTF) consultant was deeply involved to allow the FRC the issuing of a professional and usable document. The validation of the final version of the strategic plan is expected to be done at the end of January 2012 or beginning of February 2012. The participation of the Project Support Team (PST) at all the strategic meetings and workshops gave the project a precise vision on the FRC's strengths and weaknesses and allowed for a better selection of support activities (capacity building and training).

The study prior to an OPA was completed before the end of the second quarter of 2011; the report was validated by the counterpart and transmitted to LuxDev headquarters for review and decision.

The second important contribution of the project under Result 1 was the organisation of a Training Needs Assessment (TNA) and the definition of the first elements for a Human Resources Development Strategy (HRDS). A consultant from the ATTF performed both tasks during the second and third quarters of 2011. The TNA mainly showed that some training priorities had to be reviewed, and the impact on the project budget (approved by the Steering Committee) was a shift of resources from scholarships to more short-term trainings and technical assistance. The collaboration with the ATTF is reinforced at this level. The elements of the HRDS will be included in the strategies developed in the new 5-year plan.

The other main achievement of the project to implement Result 1 was the tender for IT equipment. This activity was organised in close collaboration with a United States Agency for International Development (USAID) financed project, which carried on an assessment of the FRC's IT system towards the end of 2010, with recommendations on equipment and security. As the USAID project could not provide funding for the equipment, the project took this analysis "as is" and launched the tender for the procurement of the required equipment. The equipment was delivered during the last quarter of 2011, and installed in the FRC premises to

allow the IT division to go ahead with the integration of the regulatory management system named FinA.

In the framework of Result 1, the project document foresaw a budget of 100 000 EUR for rehabilitation of a training centre. As the Parliament of Mongolia froze all construction budgets for public institutions, it will probably not be possible for the FRC to start the construction of the new premises that will include a training centre during 2012. The use of the budget and/or its reallocation will have to be discussed at the beginning of 2012.

Result 2: Strengthened regulatory and supervisory capacity at FRC

The TNA revealed an important weakness in the English language knowledge and one activity developed under this result is the organisation of English language courses, adapted to the different assessed levels of knowledge and practice. These lessons are given by a part time professor who is part of the to small groups of participants to ease interaction and to give the opportunity to everybody to really practice the language. Results are encouraging and motivate other staff members to apply for lessons, with an excess demand in comparison of the available resource.

Technical assistance was provided to the FRC departments/divisions; the two main subjects covered by these activities are (i) the set-up of an insurance glossary, which is crucially missing and has a bad impact on the quality of official texts, laws and regulations and (ii) the drafting of the regulation for custody activities, as this business will shortly become important with the distribution of Tavan-Tolgoi shares to the Mongolian population.

Following a request made by the World Bank to the FRC, the project started to define the basis of a curriculum in auditing and accounting. A local consultancy/audit firm has done a survey of available resources and an ATTF consultant performed an international research. The follow-up of this activity will take place in 2012, in collaboration with the World Bank.

Other limited activities are performed as punctual assistance to the FRC in the organisation of training/business trips and participation to seminars or workshops.

As reaching Result 2 is also mainly linked to the strategy, training and technical assistance subject areas will be fine-tuned at the beginning 2012, when the strategy will be definitively approved.

3. ANALYSIS OF THE INSTITUTIONAL FRAMEWORK AND PARTNERSHIP

During the inception phase, the institutional framework was put in place, in perfect collaboration with the counterpart. Meetings of Steering Committee (SC) and Technical Coordination Committees were held as planned in the project document with, in addition, regular meetings between the FRC official representative and the PST. The project unit was rapidly set-up, in close collaboration with the counterpart, even if it faced some issues to recruit a National Project Coordinator (NPC). To take into account this particular situation, the institutional structure was slightly modified (and approved by the SC) at the level of the PST, with a CTA, a NPA and a Proficiency Language Assistant (PLA).

Concrete activities started at the beginning of the second quarter of 2011, with the TNA, to develop a human resources strategy and with the study prior to the signature of an OPA. The information collected during these two activities gave the project and the FRC the possibility to implement activities in a coherent way at the end of 2011, even if FRC's formal strategy was not yet available. As the PST continues to be heavily involved in the strategic process, the main concepts are already integrated as much as possible in the activities that have started.

In agreement between all parties, the inception phase was closed earlier than expected, to allow the SC to confirm decisions and proposals made in the inception report. The SC was held effectively beginning of November 2011, and adopted resolutions about the project organisational structure and the repartition of budgets on the different tasks and activities, without modifying the objectives and expected results. The SC also decided to fix the project launching date at the 1st of January 2011 and the project ending date at the 31st of December 2014.

As a regulatory institution, the FRC is regularly the target of donors' programmes. Synergies between the programmes are frequently discussed between the FRC and the project in order to avoid redundancies or to fill the existing gaps. This strong collaboration was established during the first semester with the Economic Policy Reform and Competitiveness Project

(funded by USAID and completed in June 2011) and was renewed with the new USAID funded project "Business Plus Initiative" particularly in the fields of IT support and corporate governance. The PST participated on a regular basis to the coordination meetings organised by multinational donors, more precisely by the World Bank and the Asian Development Bank.

The budget-cut decision taken by the Mongolian Parliament at the end of 2011 emphasised one of the major risks detected during the formulation and confirmed during the inception phase. To date, this scarcity of funds did not have a strong negative or direct impact on the project activities, but could potentially lead to a drift of project activities to more specific answers in punctual and urgent issues instead of having a deeper and more fundamental impact on the FRC's organisation.

4. CROSS-CUTTING ISSUES

Good governance can only take place in a supportive environment, an issue not directly addressed by MON/004 project but by other stakeholders such as the Asian Development Bank, the International Monetary Fund and the World Bank at macro-level.

The project has to contribute at the meso-level, namely the intermediate level between the macro and the micro-level, an organisational structure proposed under the concept of an Inclusive Financial Sector for a more transparent financial sector, in particular through a stronger regulation and supervision.

In this regard, complementary to the reinforcement of FRC's capacity, particular attention has to be given to the development of the FRC's office in charge of the deployment of the National Corporate Governance Programme. The design of a specific strategy related to the FRC's internal governance was already supported by the project during meetings dedicated to the draft of the 5-year strategic plan.

MON/004 Project has no direct impact on either gender or environmental issues.

5. FINANCIAL ANALYSIS

During the year 2011, the project disbursed 354 825 EUR, which means that more than 96% of the initial programming of the year (370 836 EUR) were spent.

Accumulated disbursement from the project's start till end 2011 stands at 402 403 EUR.

As budgets are shifted from scholarships to technical assistance and training, related disbursements are more spread over years than scholarships. The completion of the PST also took place relatively late in the year, with a logical reduction of the cost at this level, without direct impact on the activities deployment level.

6. CONCLUSIONS, PROSPECTS AND RECOMMENDATIONS

During the SC held at the beginning of November 2011, the representatives of the counterpart expressed their satisfaction for the effective start of the project and its contribution to the reinforcement of skills and capacities at the FRC. Additionally, the new 5-year strategic plan will allow the project, in close collaboration with FRC's management, to improve its functioning and to select subject areas for capacity building and training directly related with the strategic priorities. Nevertheless, the main challenges of MON/004 remain, as already explained earlier, the ones identified in the risk analysis made during the formulation phase and confirmed in the inception report; mainly the lack of resources allocated through the state budget to the FRC, in comparison of higher and larger duties assigned by the authorities.

The collaboration with the ATTF will be increased in 2012 not only at the Technical Assistance level, but also with some support provided by ATTF to create links with European regulators, where the FRC's staff could potentially organise internships. This kind of contact has already been established with the insurance regulator in Luxembourg. More generally, the experience gathered by the ATTF in the framework of financial markets within the Vietnamese VIE/026 Project, will certainly be useful for project MON/004.

The inception report, validated by the SC, raised the fact that the enforcement of the national procurement process remains an issue, particularly regarding the signing of an OPA. Additionally, the FRC does not have the adequate resources to successfully address this situation. The transparency of the entire procurement process is a fundamental "must", from the selection of tasks to enter in the different activities to the final payment of the contractor's

performance, to what could be the size and the object of the contract. Every breach of this rule, even at the lowest level, will have to be considered as a red light to the signing of the OPA, even if the prior conditions and supervisory and/or accompanying measures recommended in the frame of the study are fulfilled. To date, the decision on the signature of the OPA is still pending.

FRC's task is far from easy, with a fast moving financial environment and this increased a number of duties allocated to the institution by the public authorities, without the adequate resources to face them. The enhancement of the institutional and operational framework is indeed supported by the project, but at this stage it is difficult to forecast its actual added value due to this increase of duties and the lack of local resources. The strengthening of the supervisory and regulatory capacity of the FRC is strongly supported by the project, but as the situation of required skills and competencies is not stable with continuous additions to the FRC's responsibilities, it is difficult to assess the average evolution of the real supervisory and regulatory capacity.