



MONGOLIA

Progress Report 2012



MON/004 - FINANCIAL SECTOR CAPACITY BUILDING AND TRAINING PROJECT

1. SITUATION AT 31 DECEMBER 2011 AND MAIN 2012 CHALLENGES

Project MON/004 effectively started on the 4th January 2011 with the fielding of the Chief Technical Adviser (CTA). The project has a four-year duration, it was agreed during the first Project Steering Committee (PSC) in November 2011 that the formal launch date of the project would be 1 January 2011 ending on 31 December 2014.

The implementation of project MON/004 started rapidly, with the set-up of the project structure and the first meetings of the Technical Coordination Committee between the counterpart and the project. This organisation allowed the project to already reach some defined objectives between the two results defined by the project document:

- Result No. 1: Enhanced institutional and operational framework at the Financial Regulatory Commission (FRC). - Strategic plan, prior study to an Operational Partnership Agreement, Training Needs Assessment (TNA), provision of Information Technology (IT) material;
- Result No. 2: Strengthened regulatory and supervisory capacity at FRC. - English courses with a part-time English teacher, technical assistance in different subject areas (mainly insurance and custody activities).

The PSC also confirmed an adapted institutional project structure, working with a CTA and a National Project Assistant (NPA) with some National Project Coordinator (NPC) duties delegated to a high level FRC staff.

After a first year where the frame of the project was designed and the main institutional needs of the counterpart fulfilled (strategy and TNA), the main challenge for the second year was the definition of priorities in terms of training and technical assistance (TA) aligned with the new strategy approved by the Commission. During the first year, the project's support in this regard was more a "case by case" response at punctual demands of the counterpart, which is the reason why activities within the second result were less important.

2. RESULTS

Result 1: Enhanced institutional and operational framework at the FRC

Activities performed during the second year related to Result 1 were mainly concentrated on task T2 "Enhance managerial capacity at FRC" and T3 "Institutional TA at FRC". Indeed, since main activities related to task T1 "Develop FRC's strategy" were accomplished during year one, the remaining available support to this task was principally given at the provision of IT equipment level. However, until the second PSC in November 2012, the FRC's project to develop a Training Centre was pending due to budget constraints, however, during the meeting the FRC Chairman informed that a few days prior the PSC, the Parliament approved a budget for the rehabilitation of the already existing building that will finally allow the start of this activity (T1A3).

Within task T2, activity T2A1 "Formal senior management training for FRC staff" was limited to the continuation of the support to scholarships decided in 2011 and as budgeted at the end of the previous year. The participation in workshops and conferences in different categories of knowledge exchange events was supported by the project through an increased budget of the activity T2A2 "Access to knowledge and capitalisation". However, to maximise the benefits from limited available resources, participants to these events were chosen from the top management of the FRC, with an objective to increase awareness of emerging market regulation strategies. They were given opportunities to meet peer agencies in action, learn from best practices and learn how to avoid the problems inherent to a young agency such as the FRC.

Task T3 is limited to only one activity T3A1 "TA in generic/institutional subject areas". To support the deployment of the recently approved strategy, two main initiatives were launched with (i) the development of a Risk Management Framework and (ii) the definition of a

methodology to develop Key Performance Indicators (KPI). The risk framework was validated by the commission and approved in September 2011

The process of creating the framework was considered as a critical step for the FRC, since it made the Commission aware of the need to map and manage institutional risks. With the support of the project, a Risk Management Officer was recruited. He will be responsible for maintaining and updating the risk framework, with the support in the field and remotely of an “*Agence de Transfert de Technologie Financière*” (ATTF) consultant recruited in 2011. The later will act as a coach to the former in order to allow a progressive transfer of knowledge and the sustainability of framework.

The second main action developed within T3A1 was the creation of a dashboard with a set of KPIs. The dashboard is expected to be able to measure progress towards the implementation of the strategy and to adopt a Balanced Scorecard approach to measure FRC staff's work. An ATTF consultant supported the development of this dashboard, using the same approach that the one used for the development of the risk framework, namely limited missions in the field plus remote coaching.

Result 2: Strengthened regulatory and supervisory capacity at FRC

Within Result 2, the emphasis was principally given to task T4 “Enhance technical capacity of FRC”, however, task T5 “Interaction with market participants” was nevertheless performed as budgeted except for activity T5A1 “Baseline survey for performance monitoring”. As a dashboard and a KPI tool are already developed under T3A1, with the same objective than in T5A1, it made no sense to develop a baseline survey without having strong redundancies between both activities.

The focus of activity T4A1 “Formal training for FRC staff” was principally shifted to the provision of specialised English language training. As the part-time experience was successful (from September 2011 to June 2012), it was decided to extend the employment of the Language Proficiency Assistant to a full time job, so she can give two lesson periods a day, in the morning and in the evening.

Beyond language support, a number of internal and external trainings have been supported by the project (e-learning on financial instruments, risk management, accounting, human resources management, etc.). As much as possible, the project tried to support the participation of staff to seminars organised by the Bank and Finance Academy, when this organisation proposed lectures conducted by international experts and namely by the ATTF. In close collaboration with ATTF, the project also organised specific support to the FRC from consultants visiting the Bank and Finance Academy.

Related to activity T4A2 “TA in functional/operative subject areas”, like in 2011, the project provided two types of TA, the first to assist them in drafting legislation or regulatory guidelines, and the second to strengthen the technical skills of staff. Actions in the first area were the continuation of the ones started in 2011, related to the investment fund law and the custody regulation. However, due to constraints linked with the slow process for the approval of the securities law, these actions are not fully completed end of year and have to be continued in 2013.

Since the regulatory information system was assessed particularly poor in 2011, and due to budget constraints, the FRC had not been able to improve it on its own budget, in 2011 the project consistently continued to support the development, maintenance and integration of the regulatory information system with the provision of material and equipment. Open source regulatory management software called FInA was selected in 2010 as the main foundation for the regulatory information system. As three different versions of the regulatory software were installed for three sectors (microfinance, insurance and securities) on three separate computers, the project undertook the task of integrating the three versions in one platform with the support of the Georgian company who originally developed FInA through a USAID funded project. This action was successfully completed end of November 2012, not only for the benefit of the FRC, but also of the regulated entities.

For the last activity under T4, T4A3 “curriculum development”, the attempt to develop a specific curriculum for the insurance sector was not yet successful at the end of 2012, due to the lack of response from the market participants. A kick-off meeting to launch this activity was organised in July 2012, with the intention to set-up a working group on the basis of the group that was busy with the draft of the insurance glossary (see activity T5A3). The members of the meeting committed to provide a list of key people able to perform the job, but the project never received any proposal, in spite of regular reminding.

For T5 “Interaction with market participants”, the actions were balanced between T5A2 “capacity building for market participants” and T5A3 “public awareness”.

The project took three actions to facilitate the capacity building of markets participants: (i) the support to the organisation by the FRC of a risk management seminar from the entire financial community, (ii) the participation of delegates of three selected microfinance institutions at the SIMFI (Simulation of Microfinance Institutions) conference organised in Luxembourg by ATTF and ADA (*“Appui au Développement Autonome”*), and (iii) the funding of the annual conference organised the Brokers/Dealers Association.

The project concretely supported “public awareness” (T5A3) with the funding of the FRC’s communication brochure. The layout and the content of this document were completely reviewed with the assistance of a Junior Technical Assistant and the participation of LuxDev’s Communication Department. The second action taken was the continuation of the draft of an insurance glossary, which already started in 2011. A final version of the glossary, drafted by key representatives of the sector, was available at the end of August for publication, but due to internal delays at the FRC, the glossary was not yet issued at the end of the year. This situation is clearly not incomprehensible since insurance specialists wrote the document, while the delay is due to “non-specialist” personnel.

3. ANALYSIS OF THE INSTITUTIONAL FRAMEWORK AND PARTNERSHIP

During the project’s second year, no change was brought to the institutional framework approved by the first PSC in November 2011. The project continued to work with a CTA, a National Project Assistant and in close collaboration with the counterpart’s representative, performing some tasks (mainly relationship with authorities) normally dedicated to the NPC.

In October, an external consultant performed the Mid-Term Evaluation (MTE). The final report stated, “Operationally, the mid-term evaluation found the project to be generally progressing as expected and as planned in the project document, with a few exceptions”. However and surprisingly, taking into account the decision taken by the first PCS, the report remarked, “The only major exception to the project execution is the absence of a National Project Coordinator (NPC) two years into the project. Lack of skilled manpower was cited as the reason for failing to recruit a suitable person to this position in the inception report, and the post has remained vacant”. The report recommended recruiting the NPC as soon as possible. This situation was discussed during the second PSC (see comment below), with the approval of LuxDev, the recruitment of a NPC was launched at the beginning of December, but was not yet finalised at the end of 2012.

The other recommendations made by the report are in brief:

- carrying out the baseline survey;
- linking the support to the training centre with a market survey;
- recruitment of the NPC;
- monitoring the access to an Operational Partnership Agreement, with an eventual progressive delegation;
- introducing mid-term consulting support;
- acting as coordinator of assistance provided by international donors; and
- allocating funds to MON/004 remaining from the UNDP micro-insurance project.

The second PSC meeting took place in November 2012 and, due to “breaking news” provided during the meeting by the FRC chairman about the national budget (allocation of budget for the training centre and for the recruitment of 30 additional staff), it was decided to let the project, in collaboration with the counterpart, provide an adapted annual workplan for operations taking into account this new situation. The question of the institutional structure was also discussed during the meeting with a clear support of the FRC to participate in the recruitment of a NPC as suggested by the representative of the Ministry of Foreign Affairs of Luxembourg. The adapted budget proposal was sent to LuxDev headquarter on 30 November, deadline planned during the PSC

4. CROSS-CUTTING ISSUES

Gender equality

Gender equality is not a cross-cutting objective in this intervention.

Governance for development

Even if the governance issues are not the principal reasons for undertaking the project, this subject remains however important and the project promotes governance for development at three distinct levels:

- at an institutional level, by building institutional capacity, improving transparency in the regulatory process, increasing access to information regarding the regulatory process as well as grievances management, and finally increasing accountability within the institution;
- at the sector level, by engaging stakeholders and promoting a participatory approach towards regulatory changes; and
- at the country level, by supporting national policy mandates and helping to bring internationally recognised best practices to the Mongolian context.

Due to the fact that capacity development is a primary objective of the project, taking into account the external MTE, it can be considered that it fulfilled the objective, at that the Development Assistance Committee marker has to be set at a higher level.

Environment and climate change

Environment and climate change are not cross-cutting objectives in this intervention.

5. FINANCIAL ANALYSIS

An amount of around 510 579,84 EUR was disbursed by 31 December 2012 out of the programmed amount of 563 005 EUR, with a 90,69 % success rate. The distribution of disbursements between the different results is the following :

- R0 “Organisation and management: 30 %;
- R1 “Enhanced institutional an operational framework at FRC: 43 %;
- R2 “Strengthened regulatory and supervisory capacity at FRC: 27 %.

A few activities were postponed to 2013 (ATTF mission, insurance curriculum, IT technical assistance) for the equivalent of approximately 5 % of the success rate: the remaining difference of 5 %, represent unused budget reserves.

It has to be noticed that due to some savings made at the institutional framework level (CTA part-time and staffing), part of the saved amounts were moved to the contingencies, with a sensible increase from 115 000 EUR Project Document (PRODOC) to 195 000 EUR end of year. However, the total programmed amount for R0 remained 100 000 EUR (at 665 000 EUR) below the amount planned in the PRODOC.

The budget for 2013 was planned around 467 000 EUR, without the use of the contingencies. 1 087 000 EUR remain to be disbursed until the end of the project, foreseen in December 2014.

6. CONCLUSIONS, PROSPECTS AND RECOMMENDATIONS

During the PSC held in November 2012, the representatives of the counterpart expressed their satisfaction for the outcomes of the project and its contribution to the reinforcement of skills and capacities at the FRC. It is quite clear that the recent decision of the Mongolian parliament to allocate additional budget to the FRC for staff and the rehabilitation of the training centre will allow a new step in the deployment of the project.

However, the continuation of the project without a strong institutional structure as recommended by the MTE will create troubles for a smooth and efficient realisation of activities. The existing staff is clearly not able to perform the day-to-day activities to properly manage the project's administration, following the process and procedures required by LuxDev's Quality Manual. The threat of a project resources' misuse remains high due to internal and personal connections between the different actors present in the field. The arrival of a NPC in the team could probably improve slightly the situation, at the express condition that the right candidate will be recruited without any local interference. In any case, this person will need a training period to become familiar with LuxDev's approach.

The rehabilitation of the training centre will probably be one of the principal activities of the first part of 2013. The continuation of the programme related to the risk framework, the KPI system and the deployment and review of the strategy will be other challenges, with the enforcement of decision taken during the PSC about the presence of Special Points of Contact and mid-term consulting provided by international experts (as also recommended by the MTE).

These elements will need a special and close monitoring from the headquarters to keep the project and the budget on track and avoid any exaggerated disbursements without clear added value for the FRC, particularly in relation to business trips and trainings abroad. The visibility of the FRC has to be supported, however within the budget approved by the PSC, last November

**Budget (Luxembourg contribution) : 2 000 000.00 EUR****Financial situation by budget line (EUR)**

Budget Line	Disbursed by 31.12.2011	Disbursed in 2012	Disbursed by 31.12.2012	Remains to disburse
1 Ressources humaines	255 951.45	122 880.09	378 831.54	193 178.00
2 Equipement et matériel	44 861.85	14 389.73	59 251.58	0.00
3 Travaux	0.00	2 782.70	2 782.70	100 000.00
4 Formation	100 016.33	340 749.77	440 766.10	619 000.00
5 Suivi et évaluation	1 573.00	29 777.55	31 350.55	58 602.00
6 Autres apports	0.00	0.00	0.00	116 237.53
TOTAL	402 402.63	510 579.84	912 982.47	1 087 017.53

Financial situation by task (EUR)

Task	Disbursed by 31.12.2011	Disbursed in 2012	Disbursed by 31.12.2012
T0 Organisation & Gestion du Projet	185 429.17	149 998.88	335 428.05
T1 Develop FRC strategy	159 005.24	19 831.19	178 836.43
T2 Enhance managerial capacity at FRC	14 956.71	105 458.00	120 414.71
T3 Institutional TA at FRC	0.00	93 536.59	93 536.59
T4 Enhance technical capacity of FRC	41 511.51	118 585.86	160 097.37
T5 Interaction with market participants	1 500.00	23 169.32	24 669.32
TOTAL	402 402.63	510 579.84	912 982.47