

MONGOLIA

Progress Report 2013



LIST OF ACRONYMS

ACLS	Advanced Cardiac Life Support
ATTF	Financial Technology Transfer Agency of Luxembourg <i>Agence de Transfert de Technologie financière du Luxembourg</i>
CFP	Cardiology Focal Point
CHD	Centre of Health Development
CTA	Chief Technical Adviser
FRC	Financial Regulatory Commission
ICD	International Statistical Classification of Diseases and Related Health Problems
INCCI	<i>Institut national de Chirurgie cardiaque et de Cardiologie interventionnelle</i>
IT	Information Technology
KPI	Key Performance Indicators
LuxDev	Lux-Development
MCH	Mother and Child Health
MoH	Ministry of Health
MoU	Memorandum of Understanding
NCMCH	National Centre for Mother and Child Health
NPC	National Project Coordinator
PDS	Preliminary Design Study
TNA	Training Needs Assessment
UNFPA	United Nations Population Fund
WHO	World Health Organization

MON/004 FINANCIAL SECTOR CAPACITY BUILDING AND TRAINING PROJECT

1. SITUATION AT 31 DECEMBER 2012 AND MAIN 2013 CHALLENGES

The Government of Luxembourg, under the bilateral agreement with the Government of Mongolia, has committed to strengthen the financial regulatory capacity of Mongolia. To realize this initiative, project MON/004 started in January 2011. This project is very ambitious and aims to strengthen the counterpart's capacity as well as to the efforts of the Government of Mongolia to develop a solid and powerful financial sector in Mongolia.

At the end of the second year of its implementation, project operations were normalized and communication and information flow with the counterpart became direct and clear. The mid-term evaluation conducted at the end of 2012 by an international company stated that the project was highly relevant for the country context, generally efficient and effective in achieving the two results defined in the project document.

For the first expected result – to enhance institutional and operational framework of the Financial Regulatory Commission (FRC) – the evaluation found that the project has performed well and delivered a number of results. A five-year Institutional Strategy has been created, stating the vision of the institution's development and the vision of three main regulated markets: Securities Market, Insurance Market and Microfinance Market.

To further support institutional development, a Human Resources Development strategy and a Training Needs Assessment (TNA) have been completed. Material support has been provided to enhance their institutional IT capacity. The second Project Steering Committee, held in November 2012, has decided to reallocate financial resources to areas where increased support is required. As part of this process, the provision for providing academic scholarships has been reduced and the amount allocated to knowledge exchange, including technical assistance, trainings and study tours, has been increased.

Experts from the Financial Technology Transfer Agency of Luxembourg (ATTF) have been providing assistance to the project on numerous aspects, including the drafting of regulations and in internal capacity building measures. The partnership between LuxDev and the ATTF is working well, with a large number of experts already deployed from Luxembourg.

For the second expected result – to strengthen the regulatory and supervisory capacity of the FRC – the evaluation found reasonable progress made. Formal training, especially on English language, is well received by FRC's staff and is bringing benefits to participants. As with the previous result, project focus has been shifted to providing technical assistance (related to insurance and custody activities, mainly) rather than formal education scholarships. Nevertheless, a number of activities, notably curriculum development for financial education, market baseline assessment and capacity building for market participants were scheduled to start in 2013 or 2014.

Over the past 20 years, Mongolia has transformed itself from a socialist country to a vibrant multiparty democracy with a booming economy. As a consequence, functions of regulatory bodies are expanding. Securities, insurance and microfinance markets - regulated by the FRC - are newly developing markets in Mongolia and, at the same time, the most attractive ones to investors. Project MON/004 believes that the involvement of the FRC staff in technical trainings and bringing world-class expertise to the FRC is the tool to contribute to the regulatory and supervisory capacity of the FRC. Therefore, the project will continue to involve key staff of the FRC in various technical trainings in and out of Mongolia.

Regarding the project management team and in line with the project document, after two years of the presence of an international Chief Technical Assistant (CTA), the Luxembourg Cooperation and the FRC decided to recruit a National Project Coordinator (NPC) in early 2013 to ensure local ownership of the project.

2. RESULTS

Result 1: To enhance institutional and operational framework of the FRC

Two important activities, namely strategy implementation and risk management framework, which started the previous year, were accelerated in 2013. The main purpose was to enable the FRC to take over ownership in writing the strategy, thus ensuring its implementation, and to set up a risk management framework in alignment with the reports and recommendations left by the ATTF consultants.

As a result, the FRC, in cooperation with the project, set up two working groups for those two respective goals, both headed by the Managing Director General. By the end of the second quarter of 2013, the Risk Framework group has derived and made a draft consolidated Risks Table to be monitored and mitigated by the FRC. On 27 April, the Strategy Implementation group conducted the FRC's first Strategy Implementation Conference, where heads of all departments reported up-to-date operations results in accordance with the adopted strategy. The group is continuing to work on developing Key Performance Indicators (KPI) to support the strategy implementation.

In May 2013, the NPC together with the FRC top management established an annual internal and external training and consultancy services plan, in line with the recommendations given by the ATTF consultants on TNA update. This approach notably improved the planning and efficiency of the project because the training plan for the whole year was available and deadlines were known beforehand. It also significantly decreased the number of unexpected requests from FRC side.

According to the project document, the project planned to fund the rehabilitation of the FRC Training Centre. Unfortunately, this rehabilitation was delayed due to unclear situation about the new FRC building. Indeed, early 2013, it was decided to include the FRC building budget in the 2014 state budget, but because of the state budget deficit, this situation remains unknown. Despite all this, the project provided necessary equipment for the newly established Financial Education Division as well as a sophisticated document management program as part of our continued effort to provide the necessary equipment for the FRC.

The project actively involved the FRC staff using internships and other technical trainings inside and outside of Mongolia. It is estimated that at least 34 out of the 120 FRC staff were involved in international seminars and training to acquire specific knowledge and capitalization skills through these activities.

To support the deployment of the recently approved strategy, two main initiatives were launched with the development of a Risk Management Framework and the definition of a methodology to develop KPI.

The Risk Management working group worked on the recommendations given by the ATTF consultant. They did the necessary research related to the operational risk framework, which implementation has started in early 2014.

The second action of the Risk Management working group was the creation of a dashboard with a set of KPI. The dashboard will measure progress towards the implementation of the strategy. A balanced scoreboard will be adopted to measure the work done by the FRC staff.

Despite the relatively slow implementation of KPI throughout the year, the FRC made significant progress by late 2013; the main KPI are already being tested by the IT Division of the FRC.

Result 2: Strengthen regulatory and supervisory capacity of the FRC

The year 2013 was remarkable because notable progress was made on the strengthened regulatory and supervisory capacity of the FRC.

Five internal trainings were given throughout the year to facilitate and encourage the active participation of six FRC staff in seminars organized by the Bank and Finance Academy. In the meantime, consultants from the ATTF and other international expertise companies were invited and organized large-scale training on initial public offering, credit policy, and risk management for FRC staff as well as for market participants.

The project actively participated in major policy related tasks beyond technical and soft skills trainings. A crucial part of project MON/004 is the creation of the so-called Custodian Regulation, which is a circular that introduces the function of custodian bank into Mongolian capital markets. Since the Custodian Regulation is based on the Securities Markets Law, it could not be finalised until the new securities Market Law was passed, which only happened on 24 May 2013. During its 2013 spring session, the Parliament of Mongolia approved a new version of the Securities Market Law. The FRC - as a regulatory body - has the function to draft regulations following the new law. In this regard, project MON/004 provided technical assistance on custodian regulation. This has been established in December 2013 and should be approved in early 2014. This regulation will bring major change to the Mongolian financial sector as it brings whole market infrastructure change and introduces custodian service, which is completely new to Mongolia.

Curriculum development (such as financial markets glossary for instance) is an important task of the project. The project, in collaboration with the FRC and key people from the insurance market, produced the first Mongolia Insurance Sector Glossary. This successful collaboration has inspired the project to continue its efforts so the project partially funded the first Capital Market Glossary of Mongolia, which was published in December 2013.

The project took the initiative to collaborate with professional associations considering that interaction with market participants is essential in order to ensure competency of the Mongolian financial sector. The project, together with the FRC, co-funded training of the Non-Bank Financial Institutions Association, which involved 640 people throughout 2013.

Corporate governance is one sensible issue in today's Mongolia. A corporate governance implementation unit has been created within the FRC to implement and monitor the corporate governance codex in Mongolia. The first Corporate Governance report of Mongolia was fully funded by the project and disseminated to the public in November 2013. This should be emphasized because it is an important step to ensure transparency and visibility of the FRC as a regulatory body.

3. ANALYSIS OF THE INSTITUTIONAL FRAMEWORK AND PARTNERSHIP

The project support team has been modified in November 2013 when the NPC position has been abolished and replaced by the National Project Officer, who was already in place.

Communication between the project team and the FRC has greatly improved with more direct channels with the Managing Director and the Chairman. The FRC circulates requests internally from the departments to the management, which then addresses important issues directly to project MON/004. This has helped the FRC management to use project funds only on necessary things and other funding sources on less important issues.

Donor coordination is essential in terms of distributing the assistance properly and avoiding redundancy. Therefore, the project is closely watching other donors' involvement at the FRC and tries to direct the assistance in the most required sub-sectors. Project MON/004 is the only project tasked to strengthen the capacity building of the regulatory body, while other donors are focused on certain sectors. For instance, the World Bank technical assistance focuses on the securities market, the Asian Development Bank focuses on capacity building of savings and credit cooperatives and the United Nations project handles micro-insurance related matters.

On top of that, the Japan International Cooperation Agency is about to launch its project on capacity building of capital market, from mid-2014.

4. CROSS-CUTTING ISSUES

Gender equality

The project does not have direct or indirect activities targeting gender equality or promoting women in development. Mongolia is a country with very low gender discrimination issues. Women have indeed always played a strong and active role in Mongolian social and political life. Women tend to be more educated than men. For example, 16 staff out of 34 who attended technical trainings abroad on project MON/004 funding in 2013 were female.

Governance for development

The project promotes governance for development at three distinct levels: (i) 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 by increasing accountability within the institution, (ii) at the sector level, by engaging stakeholders and promoting a participatory approach towards regulatory changes and (iii) at the country level, by supporting national policy mandates and in helping to bring internationally recognised best practices to the Mongolian context.

Environment and climate change

As the project is mainly engaged in technical assistance in order to strengthen capacity building in the financial sector, there are no direct or indirect activities carried out related to environmental or climate change mitigation policies.

The mid-term evaluation proposed to uphold "1" for the rating of Participatory Development and Good Governance marker, while Gender and Development and Aid to Environment markers were rated at "0", as project MON/004 has no direct or indirect activities concerning these aspects.

5. FINANCIAL ANALYSIS

In January 2013, the financial programming was equal to 498 315 EUR. On 31 December 2013, the actual disbursements have amounted to 332 360 EUR, representing a level of completion equal to 67 %.

6. CONCLUSIONS, PROSPECTS AND RECOMMENDATIONS

Having been established in 2006, the FRC is a young institution whose legitimacy is not to prove in a financial environment expanding in Mongolia, and one can notice that the objectives defined in the project document are relevant to the needs of the institution.

As it is often the case in developing countries, bureaucracy, political patronage and faulty personal judgment affect Mongolia negatively in the decision-making process. The President of Mongolia announced a huge reform initiative, starting in 2014, which is called "From BIG Government to Smart Government". This ambitious reform is intended to reduce bureaucracy and unfair decisions of government institutions. In parallel to these Mongolian government efforts, the project will continue its institutional strengthening activities promoting more staff members involvement in training programs provided by international training institutions. It would be economically advantageous for the project and the FRC to support the option of short-term internships. But both should also be consciously involved in the selection of staff and training programs in order to spread the assistance equally and avoid redundancy. Bringing international expertise in certain high level issues is necessary and inevitable as the sector regulated by the FRC is still at an initial stage of development and needs good coaching and training programs.

The project has already started successful collaboration with professional associations and certainly these efforts will be continued as indicated in the strategy plan of the FRC. Some regulatory functions could possibly be delegated in the future to professional associations when they have enough capacity to progress. For example, the FRC is planning to delegate training functions to professional associations in the near future.

Promoting public awareness is one of the important activities of the project. Therefore, the project will continue to support financial markets-related public awareness programs in accordance with the recently approved legislation, and new financial products and services such as the Securities Market Law, Law on Investment Fund and Commodity Exchange.

The project closing date is foreseen on 31 December 2014. Until then, the project intends to operate at its full capacity to deliver as many good results as possible and leave a tangible and positive legacy.



Strategy plan implementation conference, 15 March 2013, Bank of Mongolia, Ulaanbaatar



Securities clearing and settlement system, its risk management and custody services in global financial markets, 23-24 September 2013



Corporate governance national program implementation discussion, Government House, 1 November 2013



Listing procedures on a stock exchange training, October 21-23 2013



FINANCIAL SITUATION ON 31.12.2013

Project MON/004 Appendix Budget

Budget (Luxembourg contribution) : 2 000 000.00 EUR

Financial situation by budget line (EUR)

Budget Line	Disbursed by 31.12.2012	Disbursed in 2013	Disbursed by 31.12.2013	Remains to disburse
1 Ressources humaines	378 831.54	64 251.99	443 083.53	116 000.00
2 Equipement et matériel	59 251.58	2 888.13	62 139.71	11 100.00
3 Travaux	2 782.70	0.00	2 782.70	194 657.94
4 Formation	440 766.10	258 125.54	698 891.64	417 900.00
5 Suivi et évaluation	31 350.55	7 093.93	38 444.48	15 000.00
6 Autres apports	0.00	0.00	0.00	0.00
TOTAL	912 982.47	332 359.59	1 245 342.06	754 657.94

Financial situation by task (EUR)

Task	Disbursed by 31.12.2012	Disbursed in 2013	Disbursed by 31.12.2013
T0 Organisation & Gestion du Projet	335 428.05	67 269.30	402 697.35
T1 Develop FRC strategy	178 836.43	6 964.75	185 801.18
T2 Enhance managerial capacity at FRC	120 414.71	67 819.75	188 234.46
T3 Institutional TA at FRC	93 536.59	13 209.56	106 746.15
T4 Enhance technical capacity of FRC	160 097.37	139 157.38	299 254.75
T5 Interaction with market participants	24 669.32	37 938.85	62 608.17
TOTAL	912 982.47	332 359.59	1 245 342.06

