

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: ECGF

TA No. and Name 3459-MON: Strengthening Financial Sector Development			Amount Approved: \$600,000.00		
			Revised Amount:		
Executing Agency: Bank of Mongolia		Source of Funding: TASF	TA Amount Undisbursed \$9,323.79	TA Amount Utilized \$590,676.21	
Date			Completion Date		
Approval	Signing	Fielding of Consultants	Original	Actual	
22 June 2000	29 January 2001	12 March 2001	31 March 2001	30 June 2004	
			Closing Date		
			Original	Actual	
			31 March 2001	14 April 2005	

Description

Despite the reforms undertaken during the late 1990s with support from ADB's Financial Sector Program Loan, at the time of technical assistance (TA) approval, the financial sector in Mongolia remained weak and played a limited role in the economy. Further, the structure of the financial sector was unbalanced, the stock market was small and illiquid, and insurance and other nonbank financial (NBF) sectors were just beginning to emerge.

To carry forward the financial sector reforms, the Government, with the assistance of International Development Association (IDA), formulated a long-term vision and medium-term strategy for financial sector development in 1999 and asked ADB and IDA to support the implementation of the strategy. ADB and IDA developed the comprehensive financial sector reform program (FSRP) supported by ADB's Second Financial Sector Program (FSPII) and IDA's Financial Sector Adjustment Credit (FSAC). Under the agreed arrangements between IDA and ADB, FSAC focused on banking reforms, while the FSPII focused on reforms of financial governance, NBF intermediaries including capital markets, and contractual savings.

Objectives and Scope

The objective of the TA was, as an integral part of the Loan 1743-MON: FSPII, to assist the Government in developing a more competitive, stable, and broad-based financial system by increasing the efficiency of financial intermediation and supporting the development of financial infrastructure.

The TA had four key components: (i) strengthening supervisory framework for nonbank financial institutions (NBFIs); (ii) strengthening the framework for secured collateral; (iii) strengthening the legal, regulatory, and institutional framework for developing the capital markets; and (iv) strengthening the legal, regulatory, and institutional framework for developing contractual savings institutions.

The TA was well formulated, and reflected the needs for assistance in developing the legal, regulatory, and institutional framework for the supervision of NBF sector including NBFIs, saving and credit cooperatives (SCCs), capital markets and intermediaries, and contractual savings institutions. The terms of reference (TOR) was in line with the TA scope.

Evaluation of Inputs

The TA engaged seven international consultants for total of 18 person-months and total of 10 person-months of domestic consultants through a consulting firm. The placement of the recruited consulting firm under the receivership of another firm during the TA implementation hampered the timely fulfillment of the TA requirements. Although the firm has fulfilled most of the basic requirements and drafted a final report, the work could no longer be continued because the project team leader was not absorbed by the receiver firm. Instead, two individual consultants were recruited to complete the remaining tasks. The quality of the consulting services provided by the firm was not satisfactory in some particular areas as some of the draft laws and recommendations prepared by the consultants were not suitable for the situation and the legal structure of the country. The Government was not satisfied with their works and requested redrafting of the laws.

The implementation by the Bank of Mongolia (BoM) and the Government and the supervision by ADB were less than satisfactory. The consulting firm had reported that it faced difficulties in getting the Government to arrange for a workshop to discuss the recommendations made by the firm. The TA was not given timely and appropriate level of supervision by ADB partly due to the frequent changes of the officers assigned to the project. The draft final report submitted by the consulting firm was not immediately reviewed and discussed in a tripartite meeting. The translation of the report was not timely provided either.

Evaluation of Outputs

The quality of the outputs varies.

The TA has supported the introduction of regulatory mechanisms and accounting standards for NBFIs and SCCs. The supervisory framework for NBFIs was well designed and properly implemented by the BoM. However, the supervisory framework for SCCs is still weak due to a lack of legal basis for an adequate supervisory power and frequent change of supervisory authority from one entity to another.

In the area of the collateral framework, the TA has contributed to the reduction of registration time and wider valuation of the types of property registered as collateral.

In the area of the capital markets development, the TA strengthened the capacities of the Mongolian Securities and Exchange Commission (MSEC), developed business plan for the Mongolian Stock Exchange (MSE), and developed a code of ethics and guidelines for MSEC and MSE employees. The TA also drafted a draft Law on Trust and a draft Law on Investment Fund. The first draft Law on Trust, prepared by the consulting firm, was rejected by the Government. The second draft, prepared by an individual consultant, was appreciated by the Government. The Government submitted a draft Law based on the second draft under the TA to parliament, however, it was not enacted. The Government did not prepare a draft Law on Investment Fund for submission to parliament.

The first draft Law on Insurance prepared by the consulting firm was also rejected by the Government. An individual consultant drafted the second draft, which was appreciated by the Government. The Government submitted the draft Law on Insurance to parliament and the law was enacted in April 2004. The law and supplementary regulations, which will become effective in June 2005, are expected to substantially improve the supervision of insurance companies. A basic draft law on voluntary private pension plans was prepared under the TA but not submitted to parliament since both the consultants and the Government thought the law should not be enacted at that time given the inadequate general conditions for establishing such voluntary private pension plans.

The production of the outputs was less efficient since the failure of the recruited firm and subsequent need for recruiting additional consultants caused a significant delay and increased the cost in producing the outputs. The outputs of the TA were less efficacious since some of the draft laws and regulations prepared under the TA were not adopted or has yet to produce expected outcomes. After the redrafting of some draft laws, the Government was generally satisfied with the outputs of the TA.

Overall Assessment and Rating

The TA is rated as partly successful. The TA contributed to the proper implementation of FSPII, as intended, and the strengthened legal, regulatory, and institutional framework for the supervision of NBFIs, capital markets, and insurance companies. These benefits will be sustainable if the supervisory agencies for these sub-sectors will be further strengthened through a proposed consolidation of NBF sector supervisors. Several draft laws prepared under the TA, including draft Law on Trust, draft Law on Investment Fund, and draft Law on Voluntary Private Pension Plans, were rejected either by the Government (not submitted to parliament) or by the parliament and thus could not achieve their objectives.

Major Lessons Learned

A key lesson from this TA is that adequate supervision is crucial for successful implementation of a TA, especially when the recruited consulting firm or consultants have some troubles or weaknesses. In this TA, the recruited consulting firm discontinued the work without producing satisfactory outputs in particular areas. However, the draft final report submitted by the firm was not immediately reviewed and the necessary steps forward to fulfill the requirements were not immediately discussed between ADB, the Government, and the consultants. Subsequently, it took one and half years until when the individual consultants were recruited to aid the weaknesses and complete the remaining tasks. As a result, the production of the outputs (draft laws) and the completion of the TA were significantly delayed.

The TA supported the drafting of several new laws (trust, investment funds, and voluntary private pension) or overall amendment of an existing law (insurance). However, these draft laws were either not enacted or delayed in enactment. A lesson emerged from this experience is that the development of a new law is difficult to implement than other policy reforms since it requires more complicated procedures and more and uncertain period of time for drafting, interdepartmental review and parliamentary review. The difficulties were further increased because the main concepts of these draft laws were very new for Mongolia. Therefore, when a TA supports the introduction of new concepts through legislation, it is recommended to first draft short policy papers explaining both to the Government and Parliament the objectives of the proposed pieces of draft legislation.

Recommendations and Follow-Up Actions

The TA has strengthened legal and regulatory basis for the supervision of NBF sectors. However, proper implementation of the laws and regulations rely on the capacities of the relevant supervisory agencies. Currently, the supervision of the NBF sector is fragmented and weak. It is recommended that the NBF supervisory agencies be consolidated to more efficiently utilize the scarce human and budgetary resources and maximize the effectiveness of supervision.