

**TA COMPLETION REPORT**

Division : IEFI

<b>TA NO./NAME :</b> 2353-MON STRENGTHENING OF FINANCIAL INTERMEDIARIES				<b>TA AMOUNT APPROVED :</b> US\$600,000	
				<b>REVISED AMOUNT :</b>	
<b>EXECUTING AGENCIES :</b> BANK OF MONGOLIA (BOM)				<b>TA AMOUNT UNDISB. :</b> US\$155,063.06	<b>TA AMOUNT UTILIZED :</b> US\$444,936.94 1/
<b>DATE :</b> 03/10/96	<b>APPROVAL :</b> 30/06/95	<b>SIGNING :</b> 18/09/95	<b>FIELD :</b> 27/11/95	<b>CLOSING :</b>	
				<b>ORIGINAL :</b> 04/96	<b>ACTUAL :</b> 09/96

**TA DESCRIPTION**

Technical assistance (TA) for assessing and strengthening of financial sector intermediaries in preparation for a program loan was included in the Bank's 1995 Country Program for Mongolia.

**TA OBJECTIVES AND SCOPE**

In support of the Government's banking sector reform program, the TA was: (i) to assist BOM in assessing the viability of commercial banks, and in developing implementation strategies for the recapitalization and/or privatization of commercial banks; and (ii) to strengthen selected commercial banks by providing on-the-job training for bank staff in credit appraisal, asset/liability management, and foreign exchange management, and by recommending improvements in their management information systems (MIS) and internal audit systems.

**TA INPUTS EVALUATION**

TA objective and scope were adequately formulated. To enable the consultants to prepare meaningful capitalization strategies for the Agricultural Bank, the Insurance Bank and the Trade and Development Bank, the terms of reference were revised before the start of the TA to include an assessment of the financial position of these large banks, rather than an assessment of the viability of the smaller private banks. The revised terms of reference were adequate and precise, and generally in line with the scope and objectives of the TA. Five consulting firms were shortlisted for undertaking the TA and three firms submitted proposals. The winning proposal was rated "very good". The TA commenced on schedule. Field services of the consultants were extended by about one month to facilitate the scheduling of bank branch visits in other provinces, and to firm up financial and ownership information on banks. Due to work on other assignments, the submission of the consultants' final report was delayed until 10 September 1996. The consultants worked largely in accordance with the Contract and displayed sufficient flexibility in dealing with imperfect information. Their services were judged to be good. The Executing Agency, the Bank of Mongolia, generally displayed commitment to the TA and provided adequate counterpart services and facilities in time. The organization of banking training was affected by scheduling constraints and lack of commitment of some of the senior bankers participating in the training. The Bank's supervision of the TA was adequate. Bank staff participated in the inception meeting and reviewed progress on the project during several missions to the country. Extensive comments on the consultants' reports were provided in time.

**TA OUTPUTS EVALUATION**

The TA produced comprehensive portfolio audits for three of the five largest banks, covering between 84 percent and 100 percent of the banks' respective portfolios. The consultants developed preliminary recapitalization strategies for the two of the three banks that indicated long term viability (i.e. Agricultural Bank and Trade and Development Bank), which constituted the basis for the Bank's policy dialogue on the financial restructuring of these banks. The TA provided assessments of the ownership structure of the five largest banks based on banks' shareholder records and assessed the willingness of existing shareholders to contribute additional capital. In light of the negative capital position of the major banks, the Government decided not to pursue the privatization of banks in the short run. The consultants, therefore, only discussed general privatization approaches, but did not develop any concrete proposals for the divestment of state shares in specific banks.

The TA provided on-the-job training for thirty staff and classroom training covering 218 person/sessions in credit appraisal, credit approval, loan workout, and asset/liability management. The consultants developed case studies relevant for Mongolian banks and all training materials were translated into Mongolian. The consultants identified MIS requirements of the banks, designed appropriate MIS reports in Mongolian, identified appropriate banking computer software, recommended organizational structures for the banks' MIS departments, and designed and conducted a training program for MIS users in the production and use of the recommended reports. The consultants also provided a good review of current internal bank audit practices, made adequate recommendations for improvements in internal audit and control systems and procedures, prepared a new comprehensive audit manual and work programs in Mongolia, and trained audit staff of three banks and BOM banking supervision staff in international internal audit concepts, systems and procedures.

**TA OVERALL ASSESSMENT/RATING :**

The TA is rated generally successful as its objectives were substantially met and the TA was implemented on time.

**MAJOR LESSONS LEARNED :**

Corresponding regulatory changes that promote the implementation of international standards should increase the willingness of bank management to translate lessons from TA training programs into operational and institutional changes, which will increase the effectiveness of credit training efforts under any future TAs. To improve the sustainability of skills training, the establishment of formal training programs within banks, in particular for credit operations, should be a precondition for any future assistance in this area.

**FOLLOW-UP ACTION AND RECOMMENDATIONS :**

None.

1/ - Contract payment has not yet been fully disbursed. Awaiting consultants' submission of final statement.

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