

FINAL  
EVALUATION REPORT

**MON/004**

Financial Sector Capacity Building and  
Training Project with the Financial  
Regulatory Commission of Mongolia

**PROJECT SUMMARY DATA**

Country	Mongolia
Long project title	Financial Sector Capacity Building and training
Short project title	CALDIP
LuxDev Code	Financial Sector Capacity Building
Version of the Report	February 2015

**RATING OF THE PROJECT BY THE EVALUATION MISSION**

Global rating (Effectiveness)	<b>3</b> On a scale of 1 (excellent results, significantly better than expected) to 6 (the project was unsuccessful, or the situation has deteriorated on balance)
Rating using other evaluation criteria	Relevance: <b>1</b> Efficiency: <b>2</b> Sustainability: <b>3</b>

## EXECUTIVE SUMMARY

### Background

The Government of Luxembourg, under the auspices of a bilateral agreement with the Government of Mongolia, has committed to strengthen the financial sector regulatory capacity in Mongolia. To materialise this policy objective, a four year project, titled MON/004 – Financial Sector Capacity Building and Training Project, was started in 2011 with a budget of 2 000 000 EUR.

The project has dual objectives of enhancing the institutional and operational framework, as well as the regulatory and supervisory capacity of the financial regulatory commission in Mongolia. Established in 2006 as a statutory body, the financial regulatory commission is the non-banking financial sector regulator for Mongolia. The stated overall objective of the project, titled “Financial Sector Capacity Building and Training Project with the Financial Regulatory Commission of Mongolia.” is *“To contribute to the efforts of the Government of Mongolia to establish a sound institutional and regulatory environment for private sector development and transition into a market economy.”*

To achieve this objective, the project aims to both strengthen the financial regulatory commission’s technical ability to supervise the non-bank sector in Mongolia, as well as develop the skills of the commission’s individual staff members. This two tier capacity development, which is the central premise of this project, contributes well towards assisting the Mongolian government in establishing a sound regulatory environment to promote private sector development.

### Results achieved

The specific objective of this project is *“To enhance the effectiveness and efficiency of the financial regulatory commission.”* At the time of the final evaluation, we find that the project **has made significant progress** with FRC to increase its institutional effectiveness and efficiency. At the time of the final evaluation, the **project had carried out the majority of planned activities**, and 76% of the allocated budget is expected to be expended by end Q4 2014.

The project had two specific results it intended to achieve, progress towards the two are:

#### ***Result 1 - Enhanced institutional and operational framework at the financial regulatory commission.***

Activities have progress as planned in the project document, and have **met their intended goals** of strengthening the institutional and operational framework of financial regulatory commission. All planned activities, with the exception of refurbishing the training centre, have either been completed or are well underway.

To strengthen financial regulatory commission capacity, a training needs assessment and human resources development strategy have been completed with the help of Lux-Development consultants. A limited amount of IT support has also been provided. A balanced scorecard approach has been taken to manage the human capital and benchmark performance by monitoring key performance indicators.

To professionalise financial regulatory commission, on-going support is provided to middle management and technical line staff through knowledge exchanges and technical trainings. An operational risk management framework has been created and is being closely monitored in order to adopt a risk based supervision approach in financial regulatory commission.

Closer guidance, however, is needed to ensure that the technical trainings requested by financial regulatory commission are aligned with institutional development needs, not what is convenient. A value-for-money approach needs to be adopted while approving technical training plans.

## **Result 2 - Strengthened regulatory and supervisory capacity at financial regulatory commission**

Activities for Result 2 are mainly geared towards strengthening the sector and the supervisory capacity of FRC's technical staff. The project has carried out all major activities planned and met most of its stated objectives, the only exception being a baseline study which was not carried out.

Technical assistance for financial regulatory commission staff in functional and operations areas has been, and continues to be, carried out. Two high visibility sector glossaries have been developed and a third is under development. Capacity development for market participants continues through trainings organised in country by local as well as Luxembourg's financial technology transfer agency's trainers.

Public awareness on financial literacy is planned for the rest of the project duration and a local financial literacy group has a high distribution mailing list for ordinary Mongolians.

### **Final Evaluation mission**

PwC Luxembourg was mandated to carry out this mid-term evaluation over a period of 6 weeks, starting 15 September 2014. The mission was carried out by a team of experts from PwC Luxembourg, with Saleh Khan as the Lead Evaluator. The PwC team consisted of experts in the financial regulations sector, financing sector experts and monitoring & evaluation experts.

The primary objectives of the final evaluation were:

- To analyse the results and the specific objective(s) reached at the time of the evaluation, compared to what had been anticipated in the project document and/or the inception report;
- Analyse the results achieved in terms of capacity strengthening;
- Analyse the project's management and monitoring;
- Analyse the project using the development aid committee criteria for evaluating development assistance projects; taking into account cross-cutting aspects;
- Analyse in particular specific questions identified by LuxDev;
- Establish the lessons learned and give recommendations for future projects in the same sector.

### **Evaluation findings**

Against the evaluation objectives, our findings are presented below.

- **Relevance:** Evaluation Score: 1 (excellent results, significantly better than expected)

The final evaluation validates the mid-term evaluation findings that the project remains highly relevant for the long-term capacity development of the financial regulatory commission. It is the only long-term institutional capacity development project at the financial regulatory commission, which focuses across departments. Unlike other donor-funded support, this project provides un-earmarked funding to strengthen the human and institutional capacity of financial regulatory commission.

- **Effectiveness:** Evaluation Score: 3 (expected results, but there is scope for improvement)

We uphold mid-term evaluation findings and validate that the project's specific objective of enhancing the effectiveness of the FRC, as defined by the work plans, is largely met. The rating is downgraded to a score of 3, from the 2 as per the mid-term evaluation, since the project does not have dedicated, on the ground, subject matter expertise in developing capacity for a regulatory institution.

This absence of dedicated institutional capacity development expertise presents a risk to the impact of the project. In the absence of capacity to independently advise and prepare institutional development strategies, the project resorts to relaying annual training plans for assessment and approval, with very little value-add. Based on the approval of the training plan by LuxDev and financial technology transfer agency of Luxembourg, the project disburses fund for these activities.

- **Efficiency:** Evaluation Score: 2 (above average results, performance in certain areas better than expected)

Operationally, the project has been efficiently executed with a streamlined project support team. The operation team was kept to a minimal, which allowed the majority of funding to be spent on programme delivery rather than administrative / programme support.

- **Sustainability:** Evaluation Score: 3 (expected results, there is scope for improvement)

At the end of the project period, we assess the sustainability of the project from three specific viewpoints:

- Internal capacity: the institution is developing internal capacity to prepare its strategic plan, track institutional key performance indicators and prepare balanced scorecards for performance measuring. From that perspective alone, the results of the project will sustain within financial regulatory commission;
- Regulatory environment: the project has positively contributed towards the drafting of legislation and regulatory guidelines, the impact towards the non-banking financial services sector in Mongolia is long lasting and will continue well after the project;
- Continued capacity development: financial regulatory commission still remains resource constrained and dependent on the parliament for budget approval. We do not think that financial regulatory commission will be able to sustain, from internal funds, the capacity development activities undertaken by the project. At the end of the project, financial regulatory commission will have to either limit its capacity development activities, or seek alternate donor funding to take them on.

## Lessons learned

Based on the final evaluation, we identify the following lessons for future programming.

- Programmes need to be formulated, monitored and supported as part of the Government of Luxembourg's engagement with the host government.

As part of the Government of Luxembourg's engagement with the Government of Mongolia, the project lacks a 'Luxembourgish' presence. This leaves a political advocacy gap on the part of Government of Luxembourg to the Mongolian regulator. This is further exacerbated by the lack of an on-ground 'champion' for the Luxembourg financial market place, who can actively promote knowledge transfer and showcase best-in-class regulatory examples from Luxembourg.

- Programme effectiveness and project execution needs dedicated expertise.

Institutional capacity development projects in a country such as Mongolia require full time, on the ground, capacity development experts in order to be effective. Anything short of this risks the value-for-money of a development cooperation project. While the cost of keeping dedicated experts for the duration of the project might seem expensive and counterintuitive, from an aid effectiveness perspective, the value-for-money impact of not having real expertise on the ground is far greater.

- Experts need to have a 'problem solving' not 'problem finding' attitude.

Consultants provided should be experienced in working in developing economies and should be well aware of constraints of working in this context. When faced with a challenge, instead of channelling attention to it, they need to move beyond, identify alternative pathways to move forward and generate solutions.

## Project extension

FRC's Chairman, in the third steering committee meeting on 4 July 2014, formally requested LuxDev to extend the project in order to fully disburse the funds remaining. We estimate that 24% of project fund will remain unspent at the beginning of 2015, if it delivers on its full work plan for 2014.

We therefore think that a **'no cost project extension' is feasible** without additional financial implications for LuxDev. We do, however, strongly recommend that LuxDev allocate institutional capacity development expertise to the project, should the extension be granted.