Evaluation Unit

Promotion of Service Providers in the Financial Sector, Mongolia

Final evaluation 2009 - Brief Report

gtz

On behalf of
Federal Ministry
for Economic Cooperation
and Development

Published by:
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Prepared on behalf of:
Federal Ministry for Economic Cooperation and Development

Produced by:
GFA Consulting Group GmbH

This report was produced by independent external experts.
It reflects only their opinion and assessment.

Eschborn, 18.01.2010

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Tabular overview

The evaluation mission

Evaluation period	April – July 2009
Evaluating institute / consulting firm	GFA Consulting Group GmbH
Evaluation team	Ulla Törnroos (international expert) Tsetsen Dashtseren (national expert) Christiane Schröder (junior expert)

The development measure

Title according to the offer	Promotion of Service Providers in the Financial Sector
Number	PN 2003.2258.6 and PN 2006.2140.9
Overall term broken down by phases	Phase I: 01/2005 – 07/2007 (2 years and 7 months) Phase II: 08/2007 – 07/2009 (2 years)
Total costs	Phase I: EUR 1,022,000 Phase II: EUR 1,000,000
Overall objective as per the offer, for ongoing development measures also the objective for the current phase	The Banking Training Center (BTC) works independently and cost-effectively and is a central service provider for human resource development in the Mongolian financial sector.
Lead executing agency	Ministry of Finance and Economy, Department of Economic Cooperation
Implementing organisations (in the partner country)	Banking Training Center (BTC) Partners: Bank of Mongolia (BoM) and Mongolian Bankers Association (MBA)
Other participating development organisations	None
Target groups as per the offer	Entrepreneurs particularly of micro, small and medium enterprises (MSMEs) in rural and urban areas as well as agricultural producers and herders with demand for financial services.

The rating

Overall rating *On a scale of 1 (very good, significantly better than expected) to 6 (the project/program is useless, or the situation has deteriorated on balance)*	4
Individual rating	Relevance: 3; Effectiveness:4; Impact: 4; Efficiency: 4; Sustainability: 4

Executive summary

On behalf of GTZ the project “Promotion of Service Providers in the Financial Sector” in Mongolia was evaluated by Ulla Törnroos, Tsetsen Dashtseren and Christiane Schröder from GFA Consulting Group GmbH.

In order to assess the results of the development measure, a multi-method approach was used. An inception report based on analysis of project documents received preceded the field mission, which was conducted between 10 May and 28 May 2009. The findings of this report are based on individual interviews with the German and Mongolian project partners, representatives of financial institutions and representatives of target groups (micro, small and medium entrepreneurs [MSMEs] in urban and rural areas and agricultural producers). The evaluation team chose three provinces for the assessment: *Darkhan Uul aimag*, the second largest industrial centre in Mongolia, *Selenge aimag*, one of the main cropping and vegetable growing regions, and *Zavkhan aimag*, one of the more problematic regions in terms of socioeconomic development. The mission was followed up by two surveys with human resource managers and training participants, desk research of project and background documents, and report preparation.

Economic activity in Mongolia has traditionally been based on herding and agriculture. However, today the extraction of extensive mineral deposits accounts for a large part of industrial production and foreign direct investment. Mongolia’s strong economic growth since 2003 is due largely to a booming mining sector. Although the general economy has made significant strides and the GDP per capita nearly tripled, it has not resulted in any substantial poverty reduction. Instead, social inequality has widened leading to a significant increase in the number of the poor. In 2005, 22% of the population lived on less than USD 1.25 a day.

The development of a healthy MSME sector continues to be a challenge. The prospects for sustainable growth of the MSME sector remain weak for a number of reasons, such as lack of infrastructure, a weak regulatory framework for private sector participation, an unfavorable tax system, inefficient financial intermediation, and a small domestic market. The overreliance of commercial banks on collateral makes finance inaccessible for MSMEs and agricultural producers lacking sufficient collateral. Working with MSMEs creates a high opportunity cost for commercial banks and is essentially the main reason for their limited interest in developing MSME finance.

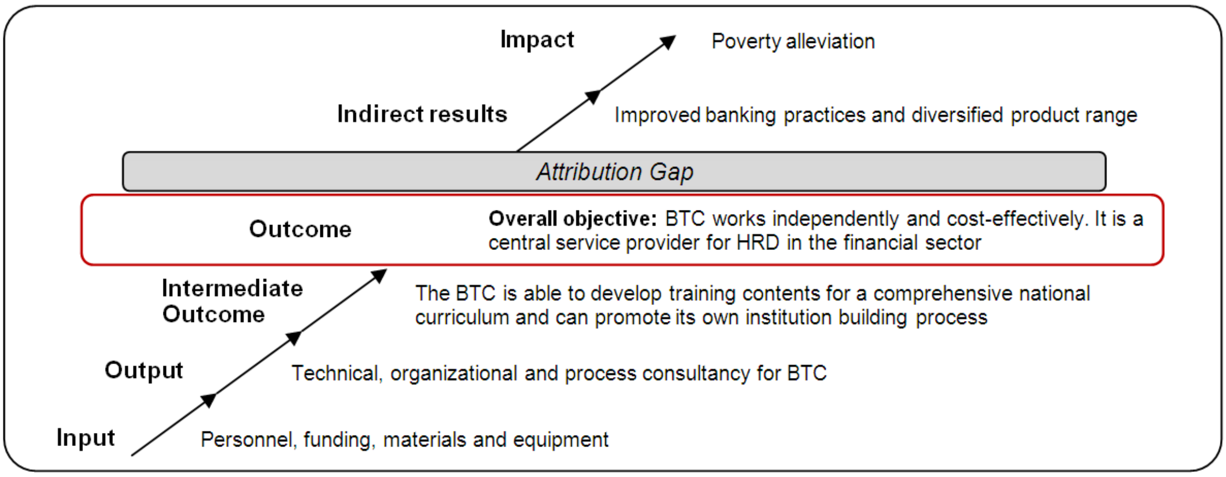
Mongolian financial institutions lack qualified employees. Unfortunately, Mongolian universities do not seem to be capable of producing the quality and quantity required by the financial institutions. Instead, they have to resort to in-house training programs for the necessary staff development. Against this background, the evaluators conclude that the core problem for the project is valid: *'A major factor limiting the expansion and soundness of the financial sector is the inadequate level of education of bank staff.'*

The project, "Promotion of Service Providers in the Financial Sector", started in January 2005 with the overall objective: "*The Banking Training Center works independently and cost-effectively and is a central service provider for human resource development in the Mongolian financial sector*". According to the assessment of the evaluators, the overall objective corresponds well to the core problem.

The project has been implemented in two phases: Phase I from 01/2005 to 07/2007 and Phase II from 08/2007 to 07/2009, with a total duration of four years and seven months and a total budget of EUR 2.022 million.

The cause/effect hypothesis of the project can be formulated as follows: The enhancement of knowledge of financial intermediaries leads to improved access to finance for MSMEs and agricultural producers. Indicators addressing some of the key needs of the target groups were included during Phase I only and were missing from Phase II offer. Consequently, the cause/effect hypothesis was more applicable for Phase I than for Phase II. The results chain as described in the offer is plausible and comprehensive (see graph below).

Graph: Results Chain



In order to evaluate the success of the development measure, the OECD/DAC classification system has been applied. The overall rating is unsatisfactory; negative results predominate despite identifiable positive results (level 4). This overall rating is derived from a combination of satisfactory relevance, unsatisfactory efficiency, unsatisfactory impact, unsatisfactory effectiveness and inadequate sustainability.

Relevance: The project's relevance is rated as satisfactory; positive results predominate (level 3). The project concept set out to indirectly support MSMEs and agricultural producers by building sustainable structures at an existing service provider that matches German and CGAP strategies of financial system development. The concept is also in line with the German strategy for sustainable economic development and the principles for a social and ecological market economy. The development measure complies with Mongolian Government National Action Plan for 2004-2008 highlighting the importance of reform of the country's financial sector to ensure continued economic development of the country over the medium term. Although the selected project partners were the correct ones for the achievement of the project objectives, a sense of "ownership" was missing and conditions outlined in the Implementation Agreements were not met. The concept did not sufficiently take into account that although the Bank Training Center (BTC) received previous donor assistance, substantial efforts should have been directed towards building internal capacity, thereby ensuring long-term sustainability.

Effectiveness: Even though the project fits into the structure of the national financial sector, the effectiveness of the project in reaching the expected outcomes is rated unsatisfactory, negative results predominate despite identifiable positive results (level 4). Various factors impeded the effective implementation of the project and only two of the four given indicators were fulfilled. *Indicator 1,* related to the "helpfulness" of trainings for training participants, was *achieved* with a total of 107 trainings delivered since 2006 and attended by 1,763 participants. More than 95% of these training participants found the trainings good and helpful. *Indicator 2,* focusing on the successful completion of newly developed trainings in all relevant areas, was *fulfilled*. The project provided a wide spectrum of trainings for different levels of banking staff that were developed in cooperation with the banks. However, this indicator may or may not have been achieved, depending on the interpretation of "successful completion". If it indicates full attendance, then the evaluation team believes this has been satisfied; however, if it means passing the exams, then it may not have been fulfilled. *Indicator 3* was *not achieved*, as it required that BTC has three properly qualified employees. Currently, BTC has only one employee able to conduct basic trainings; none are qualified to assess training needs or develop concepts. This indicator was achievable only if BTC had hired adequate staff, a factor the development measure could not influence. *Indicator 4,* stating that BTC is to work at the breakeven point, has *not been achieved*. Financial results in 2007 and 2008 were good due to the high number of trainings conducted and subsidized by the project through BTC. However, no more trainings have been conducted in 2009 through BTC; and BTC replicated only one of the project trainings itself. The evaluation team expects that BTC will make a loss this year. Unfortunately, because it is a department of the Bank of Mongolia, BTC cannot access revenues earned during previous years. Therefore, for the foreseeable future, BTC will remain dependent on financial support from donors, banks and the Bank of Mongolia. An unintended positive outcome was achieved as, over the course of project implementation, most of the banks established training units and used instructors trained by the project to replicate trainings for bank staff.

<u>Overarching development results (impact)</u>: Trainings delivered by the project resulted in some improvement of general banking principles and professionalism. The improvement of the situation in the rural areas, where a major portion of the target groups are located, was not evident. New products were introduced related to savings, lending and transmittances in general, but not designed to the specific needs of the target groups. It is likely that trainings on credit risk management and loan procedures conducted by the project contributed to improved access to financial services and a decrease in the NPL ratio also for the target groups. Loans granted to the target groups – entrepreneurs of MSMEs, herders and agricultural producers – were usually short-term and served only to bridge seasonal peaks; these loans did not meet the target groups' full investment needs. The impact of savings products vis-à-vis household cash flows could not be assessed. Neither could any benefit be found for women attempting to access microfinance services. Therefore, the evaluation team sees the impact on poverty alleviation as limited. In conclusion, the impact of the project is regarded as <u>unsatisfactory, negative results predominate despite identifiable positive results, (level 4)</u>.

<u>Efficiency</u>: Planned project resources correspond to the intended mode of delivery. However, the project operated as a separate training provider rather than supporting BTC, which was the intended project objective. International trainers continued to be used for the same topics instead of developing a cadre of local trainers. A large number of study tours were delivered, but it would have been more efficient to decrease the number of study tours and instead

carry out more trainings in Mongolia. The partners did not contribute their share of the Implementation Agreement, namely appointing sufficient number of qualified staff for BTC. Therefore, BTC was not staffed adequately to ensure the efficient achievement of the project objective. Furthermore, the project was extended in a second phase even though there was non-compliance with the Implementation Agreement. The project's cooperation with Mongolian banks was excellent, although BTC was not included in these relationships. As a result, the efficiency is rated as <u>unsatisfactory, negative results predominate despite identifiable positive results, (level 4)</u>.

<u>Sustainability</u>: Prior to the project, BTC had worked with several international donors; however, BTC played a supporting rather than leading role in these instances. In order to create the necessary internal capacity to achieve sustainability, specific actions were needed. Proper facilities were required, but adequate offices and training rooms were not made available until 2008. As the Bank of Mongolia did not comply with the Implementation Agreements related to hiring qualified staff to be supplied to BTC, the project was not able to build the intended capacities at BTC, which currently has a limited ability to offer the appropriate training courses using local trainers. The project focused instead on training delivery by German trainers, failing to build capacity in local trainers. By targeting its activities predominately at the bank level and developing direct relationships with the banks, the project shifted resources away from the bank training centre level called for in the project concept, and thereby affected BTC's ability to become self-sustainable. Trainings of a basic nature have been replicated by both BTC and bigger banks, whereas more advanced trainings can only be presented in a condensed format and, even then, with uncertain quality. Therefore, some sustainability can be found within the banks. During 2007 and 2008, the project channeled a number of training courses through BTC, contributing to the positive financial results for BTC during those years. However, BTC's lack of operational and financial sustainability is clearly shown in training activities during the first five months of 2009, when only one of the project training courses was conducted. Instead of ownership being transferred from the Bank of Mongolia to the Mongolian Bankers Association, BTC continues to be part of the Bank of Mongolia and remains dependent on BoM and/or donors for further technical and financial support. One sustainable result offered by the project is the comprehensive study notes on various topics covered in the training sessions, closing an important literature gap in Mongolia. However, the overall lack of sustainable structure at BTC still exists as the project comes to a close. In summary, the sustainability is rated as

inadequate; the overall success of the project is inadequate at the time of evaluation and there is a high degree of probability that it will not improve (level 4).

Recommendations for German development cooperation: (i) Individual small projects that are not part of larger programs need to be closely monitored on a regular basis by GTZ head office. In addition, it is also important that the project receives technical support from GTZ head office. This would ensure that prompt action is taken, such as when it appears that the project objective is not achievable; (ii) lessons learnt from previous projects supported by other donors with the same implementation partner should be carefully investigated before designing a new project with this partner; (iii) an exit strategy and corrective measures should be created based on project risks identified during the fact-finding stage. Then, if the project moves away from the desired direction, prompt action should be taken; and (iv) when preparing the offer for extension of a project, it is important to take relevant recommendations from the project progress review into account.

Recommendations to implementation partners: Because no further donor funding will be provided, the implementation partner now needs to develop an alternative plan for BTC's operational and financial sustainability.

Annex: Comparison of target and actual situation

Promotion of Service Providers in the Financial Sector
Jan 2005 – July 2009
Indicators: Comparison of targets with actual situation as of reporting date

Overall objective:

The Banking Training Center (BTC) works independently and cost-effectively and is a central service provider for human resource development in the Mongolian financial sector

Cross-cutting issues

Public Private Partnerships (PPP-1)	Poverty (MSA)	Good Governance (PD/GG-0)	Gender (G-1)	Environment (UR-0)
STATUS: BTC had some discussions with Academy of German Cooperatives about cooperation, but has not pursued the achievement of an agreement.	**STATUS:** Training contents were not focused on target group. Some indirect effect on access to finance for MSMEs and agricultural producers is achieved.	**STATUS:** The project was not oriented on a participatory development or good governance.	**STATUS:** There was a proportionate participation of women during trainings. Improved access to saving and microfinance products for women as part of the target groups could not be assessed.	**STATUS:** Environmental issues were not addressed by the project.

Overall Indicator 1: Target
At least 75% of all training participants from all groups of financial institutions (at least 50% of them are female) find the trainings offered by BTC helpful (measured by inquiries).

STATUS: More than 95% of training participants found the trainings helpful.

Overall Indicator 2: Target
75% of the participants have successfully completed newly developed trainings supporting the human resource development in all relevant areas.

STATUS: More than 90% of participants successfully completed the trainings

Overall Indicator 3: Target
At least three BTC employees (qualified in the fields of lending, customer service and management) are able to assess training needs, develop concepts and conduct trainings.

STATUS: Only one BTC employee (in the field of customer service) is qualified as indicated above.

Overall Indicator 4: Target
BTC works at the breakeven point in line with existing business plan and is independent of subsidies from donors, financial institutions or Bank of Mongolia.

STATUS: BTC is still in the future dependent on financial support from BoM, donors and banks.

Current status of activities and outcomes, as per implementation

KNOWING WHAT WORKS

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