PD-ABN-359

FINANCIAL SERVICES VOLUNTEER CORPS

Final Grant Report

Program in Mongolia

January 1 - September 30, 1996

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During the first nine months of 1996, The Financial Services Volunteer Corps (FSVC) carried-out a commercial bank training program in Mongolia, the goal of which was to provide targeted technical assistance and training to key staff of three commercial banks so that a tangible contribution could be made to efforts to reform the financial sector of this emerging democracy.

FSVC's Country Director, in consultation with the USAID Representative and Banking Assessment Team, developed measurable targets that this could be achieved within the context of FSVC's capabilities and mandate as well as within the banking environment in Mongolia. At each of the three target banks, FSVC would seek to: establish asset-liability, credit and loan workout committees and, to ensure that the committees would become functioning, require that they meet on a monthly basis; assist the target banks in writing policies and procedures to manage the major asset and liability components of their balance sheets and loan portfolios; and strengthen the banks' ability to assess the creditworthiness of borrowers, identify and resolve problem loans and ensure prudent loan management. These targets would also contribute to improving the professional quality of the target banks' staff. With their acquired knowledge, the key staff of the banks would become equipped with the tools and techniques to analyze prudently the creditworthiness of borrowers and to begin the task of reducing the level of non-performing loans.

As a result of joint meetings between the FSVC Country Director and the USAID Banking Sector Team, the following criteria were chosen for selecting the three small commercial banks which would participate in the program:

- Less than 5 billion tugriks (US $10 million) in total assets;
- Willingness to sign a letter of agreement outlining the program targets;
- Agreement to nominate a senior banker as a representative to the program's working committee charged with coordinating technical assistance and training and monitoring the program's progress;
- Acknowledgment that their bank would not receive technical assistance from other sources during the term of this program;
- Agreement to establish asset-liability, credit and loan workout committees and commitment that these committees would meet monthly;
- Agreement to provide periodic financial and loan portfolio data to FSVC and the working committee to assist in monitoring the progress of the program; and
- Commitment of key staff, including the general director, deputy directors and appropriate staff to the training program.

Three small commercial banks - the Export-Import, Post and Mercury Banks - were selected to participate in the program. During the program, modifications were made to the above criteria: for example, the monthly working committee, which was comprised of the general directors of the three banks, met periodically as a group and on an individual basis with the FSVC Country Director. The general directors did not feel comfortable divulging confidential financial information in a committee forum. Moreover, the FSVC Country Director collected financial and loan portfolio data from the supervision department of the Central Bank rather than from the three target banks. Because of inadequate financial reporting and lack of bank accounting knowledge, the financial information from the three target banks was insufficient. Key financial data on the three target banks was obtained twice from the Central Bank's supervision department: as of 12/31/95 and as of 7/31/96.

During the interview and the final selection process, it was revealed that all [eight] candidate banks had relationships with state-owned enterprises (SOE). The scope of the SOE relationships within the three banks varied. These relationships consisted of one or more of the following: deposit accounts, credit facilities, minority shareholders' interests and/or representation on the Board of Directors. Therefore, these SOE-relationships have a potentially dramatic impact on the financial condition of the three banks and, to a limited extent, on the results of the program. One of the challenges of the training program became to assist the staff of the target banks to resist demands made by representatives of the SOE's for preferential credit arrangements and direct involvement in management decisions.

Nine Volunteers participated in the program, including a Chairman of the Board of a regional financial group and a Senior Vice President and Chief Financial Officer for asset and liability management. The Volunteers spent 14-20 business days in Mongolia each. During an average day, each Volunteer spent the morning providing technical assistance to senior management at the target banks. This generally consisted of working with the banks' general director, deputy general director and department heads. Afternoons consisted of training sessions for these individuals as well as additional bank staff. The training sessions incorporated the banks' financial data, which had been used to create case studies, in-class exercises and homework assignments. At the end of each Volunteer's assignment, program evaluations were distributed to the Mongolian bankers for their comments, suggestions and ratings of the course material and quality of presentations.

During the program, asset-liability management topics were covered, including rate sensitive assets and liabilities, repricing periods, interest rate volatility, liquidity, cash flow, foreign exchange exposure and marginal and incremental cost of funds. Gap reports were introduced and compiled by all three target banks.

In addition to assisting the banks in drafting credit and loan workout policies and procedures, the program also addressed negotiating techniques for problem loans and how to develop problem loan strategies. In addition, learning to identify "early warning signs" of a problem loan was addressed. Revised loan applications were also updated and loan monitoring procedures were introduced. Lending to shareholders, insiders and members of the Board of Directors has contributed to the deteriorating financial condition of all Mongolian commercial banks. As a result, new credit policies were drafted to restrict such lending in the future at all three banks.

The three target banks had no experience in international trade transactions. Accordingly, the trade finance and letters of credit component covered bills of exchange, the major types of letters of credit, bank guarantees, documentary credit and collections and other related issues, specifically insurance, warehouse receipts and bills of lading. In addition, the Volunteers assisted the banks in establishing an organizational chart for their trade finance departments as well as defining the staff functions and responsibilities. Back office operations and the processing of letters of credit and other trade finance documentation were also discussed.

Most of the bankers, especially recent college graduates, have been trained in GAAP accounting. Nevertheless, a number of topics were discussed in greater detail in order to supplement the knowledge of the Mongolian bankers. For example, accounting for loan loss reserves, provisioning for bad debts and real estate transactions were addressed as the Mongolians had no previous exposure to these areas.

Attendees from all three participating banks included the general director, the deputy general director, heads of the credit and accounting departments and key staff from the credit loan workout, accounting and international departments. On average, approximately six bankers from each bank attended each training module. Periodically, due to staffing problems or monthly and quarterly bank reporting requirements, the number of bankers dropped to four. The FSVC Country Director coordinated with the general directors of each participating bank to ensure that the appropriate bank staff were in attendance for each module.

Overall, the evaluations noted that the financial advisory technical assistance and training courses succeeded in focusing on the problem areas of the banks; in addition, the bankers felt that the knowledge acquired would assist them in improving the financial condition of their respective banks. For many of the bankers, this was their first intensive exposure to such topics as asset-liability management, foreign exchange, loan workout strategies and risk rating systems. On a score of 1 to 10, with 10 being the highest grade, 90% of the respondents rated the program an 8. The respondents also added that the course materials were highly relevant and directly pertinent to their bank's particular needs. They felt that FSVC's handouts significantly supplemented their banking knowledge. One suggestions was for supplementary course handouts.

The following goals were achieved during the course of the program: the establishment of asset-liability, credit and loan workout committees in all three target banks, the drafting of policies and procedures for all three committees, and the implementation of risk rating systems for the banks. In addition, status reports for problem loans, call reports, credit file maintenance procedures and internal management reports, standardized business plans, credit analysis and due diligence procedures, marketing techniques and customer quality controls were also introduced.

The success of the program was due primarily to two factors: the design and implementation of the program addressed the training needs unique to each participating bank; and the active participation of senior management in the training courses ensured the banks' willingness to adopt the recommendations made by the Volunteers. In addition, the mentor style of instruction that was employed ensured that ideas, problems and issues were discussed, filtered, and ultimately condensed into a practical model that can be implemented within a bank.

FSVC is confident that the banks which participated in the program will reap benefits from the training in the near and medium term. The banks now have a core staff trained in Western banking practices, and have developed relationships with counterparts in the United States. There are additional training needs within the commercial banking sector, however, and FSVC remains eager to help the newly-elected, reform-minded government, as well as private financial institutions, meet the challenges ahead.

FINANCIAL SERVICES VOLUNTEER CORPS
MONGOLIA BANK TRAINING PROGRAM
JANUARY 1, 1996 - SEPTEMBER 30, 1996

	Proposed	Expended as of 9/30/96	Funds Remaining
Airfare	$51,600	$46,731	$4,869
Per Diem	34,800	31,297	3,503
Local Transportation	6,660	5,349	1,311
Development & Publication of Training Materials	5,000	4,245	755
Textbooks/Course Supplies	5,000	5,993	(993)
Freight	6,000	1,570	4,430
Lodging	5,200	5,579	(379)
Country Director & Part-Time Program Officer Salaries, Benefits and Taxes	80,700	91,480	(10,780)
Administrative Support in Ulaanbaatar	5,000	6,265	(1,265)
Telecommunications	6,795	9,661	(2,866)
Insurance	2,425	225	2,200
Supplies	3,000	2,964	36
Visa Fees	420	1,391	(971)
Bank Fees	500	424	76
FSVC/NY Costs	7,500	7,426	74
TOTAL	$220,600	$220,600	$0

Note: Salaries, Benefits and Taxes are high because program was extended by one month. The same is true for Admininistrative Support and Telecommunications, as the Country Director was in Mongolia for one month longer than expected.