Board Meeting of June 2, 1998
Statement by Juanita D. Amatong

MONGOLIA -- Country Assistance Strategy

1. We welcome this opportunity to discuss the country assistance strategy for Mongolia and compliment staff for their efforts in preparing this document. It presents a balanced assessment of the progress made since the first CAS in June 1995 and sets a clear direction for the Bank’s future program of assistance.

2. As the document notes, Mongolia has had a mixed record of progress since the last CAS. While some headway has been achieved in macroeconomic targets, financial sector reform, privatization, revenue mobilization and expenditure management, key challenges remain. Fiscal and monetary management measures are needed to further reduce present levels of inflation and improve revenues, and increase national savings.

3. Increasing and widespread poverty in Mongolia, closely associated with unemployment and malnutrition among children, presents a strong case for greater efforts in pushing poverty alleviation measures. We support the areas of support presented in the CAS to assist the Government’s direct poverty reduction efforts. One concern pointed out in the document is the problem of social assistance targeting and regional allocation. Only 3 percent of the unemployed receive compensation and social assistance reach only one-sixth of the very poor.

4. The document notes that the proposed Fiscal TA project will help to rationalize public expenditures and address the shrinking public expenditures that have adversely affected the social safety net as well as the health and education sectors. While this project would essentially tackle the resource allocation issue, we wonder if Bank assistance is being provided to help improve the targeting mechanisms necessary to ensure that the poor and vulnerable groups receive the required social assistance. We fully endorse the Fiscal TA and consider it an essential element of support for the country’s overall stabilization and structural reform efforts. IDA’s attention to enhance the quality of economic projections and statistical analysis, through an IDF-financed National Accounts Capacity Building Project, is an important step in the right direction. However, we believe that the development of good-quality statistical data especially in the social and financial sectors should also be given special emphasis. We wonder if EDI would have a role in this regard.
5. We appreciate the special attention given in the CAS to strengthening relations with development partners, including the IMF as IDA’s principal partner in economic policy dialogue. The emphasis on closer coordination with other donors is essential. Mongolia’s investment needs are enormous and the donor community has responded favorably with substantial official development assistance. IDA, the third largest in terms of program size, accounts for 15 percent of annual commitments.

6. While the CAS indicates that cooperation with other multilateral and bilateral donors in delivering both lending and non-lending services is generally satisfactory, it also recognizes the scope for more upfront consultation at the programming stage, and better coordination of technical assistance. The CAS envisages a continuing strong role for IDA in coordinating aid. Apart from the conduct of regular meetings and consultations, we would like to have a better sense of how effective coordination is done in practice. For instance, what is the extent of coordination in the financial sector, an area where substantial donor activity is expected? IDA will prepare a Financial Sector Strategy Paper (FY99), ADB will provide a Financial Sector Program Loan, a Financial Sector TA, Financial Sector Capacity Building, Capital Markets Development, etc., in addition to donor inputs from USAID, OECF, KfW, and so on. In the same manner, the Public Administration Reform is another area of multi-donor activity. We want to have a better understanding of how division of labor between and among the various development partners will be operationalized.

7. We support the CAS focus on private sector development and in developing infrastructure to support private sector growth and market development. We note the conduct of analytical work in carefully defining sectoral and priorities and issues to guide policy and investment decisions. These include the Transport Strategy Paper (FY98), the Financial Sector Strategy Paper (FY99) and a study on the Consequences of Large-scale Privatization (FY98). We consider these as critical pieces of analytical work from which the wide donor community should be able to benefit especially in helping define their respective programs of assistance in Mongolia. Two points need to be underscored here: one is the systematic dissemination of the results of the studies and the other is the timeliness in which such results are disseminated. We urge Management to be mindful of these to ensure that the added value of Bank assistance is delivered in a relevant and timely manner. We would, however, expect to see a more active IFC engagement in Mongolia.

8. In describing the conditions for the CAS scenarios, the strong link between performance and the level of Bank support is quite explicit. However, it is not clear why the trigger for the high-case lending scenario is based solely on the occurrence of external shocks. Under a high-performance scenario but without the occurrence of any external shocks, what will be the Bank’s response?