Board Meeting of May 19, 1998
Statement by Frode Neergaard

LATVIA – Country Assistance Strategy

The CAS paper provides a thorough and candid analysis of achievements and prospects of economic reform, as well as problems and risks of Latvia’s future developments. On behalf of my Latvian authorities, I would like to thank the Bank’s Management and staff for this well formulated and comprehensive CAS.

Latvia is an example of successful cooperation between the Government and the World Bank. Achievements in Latvia’s economic reform can be, to a great extent, identified with WB assistance. A mutual trust has been continuously serving as the basis for cooperation between Latvia and the Bank. Continuity of reforms is another important factor of Latvia’s success. Notably, all Latvian Governments throughout the transition process have been continuously committed to economic reforms.

We appreciate the fact that all previous Bank operations in Latvia have been rated highly satisfactory or satisfactory, as to the development objectives and implementation progress. The most successful Bank projects in Latvia, like Agricultural Project and Welfare Reform Project, could be used as sample projects in other countries. We believe this is a result of joint efforts by the Bank’s staff and their Latvian counterparts.

Partnerships and donor coordination has been substantially improved during recent years. The initial partnership between the World Bank and IMF has further broadened and developed, to include other international institutions and bilateral donors. The Nordic countries have been among the first and most active bilateral donors to Latvia. We consider it important that the Bank play a key role in setting up a policy framework for donor funding. On the other hand, the Bank’s cooperation with EBRD, the European Commission and EIB, can substantially facilitate the EU accession process. Latvian authorities very much appreciate the dialogue initiated last year. We welcome the recently signed Memorandum of Understanding, between EBRD, EC and IBRD, and also stress the importance of continued close coordination with major bilateral donors. We appreciate the importance of donor coordination given in the CAS. This is especially crucial in the context of supporting Latvia’s integration into the EU.

The economic developments of Latvia confirm that economic reforms are now entering a more advanced stage of the structural reform. In
1996 and 1997, economic growth has constituted 3.3% and 6.5% respectively, and is expected to remain steady during the present and future years. Inflation rates have been continuously decreasing, and the latest CPI figures are around 6% on an annual basis. The Government has a balanced budget for the second consecutive year, and is committed to continuing this policy in the future. The current account deficit (6.9% of GDP in 1997) has been compensated by positive capital account, and is expected to decline in coming years.

We support the Bank’s strategy in Latvia, concentrating on institutional capacity building, improvement of regulatory framework and human development reform. Latvian authorities are content with the composition of the Bank-financed program that follows the priorities set by the Government.

At the same time, Latvian authorities are interested in receiving more high quality, non-lending services from the Bank. The Government will be ready to increase its contribution to the cost of carrying out the now Bank financed program, as the share of non-lending services increases. We think that broader application of the cost sharing practice would allow the Bank to provide more advisory services to its client countries in the future, and make use of the Bank’s comparative advantage in this area.

Latvian authorities are particularly looking forward to Bank assistance in designing and monitoring a precautionary reform program that will follow up on the present SAL supported program. This program will provide a comprehensive framework for reforms, including those needed for EU accession. The program will also allow regular consultations with the Bank on economic policy issues, thus contributing to sustainability of reforms. At the same time, the program will provide a contingency plan for handling and minimizing external negative shocks.

We would also like to see IFC more involved in Latvia. Improvements of regulatory framework for infrastructure would facilitate private investments in this sector. A program for support of SMEs would both strengthen the private sector, as well as reduce regional disparities. We therefore hope that the next CAS will be a joint Bank Group CAS.

Support of public sector reform -including anti-corruption measures- is essential, and we appreciate the Bank’s assistance in this area. Again, this is a crucial area in the context of EU membership.

We especially appreciate emphasis being put on human resource development. The Bank’s activities in the social sector (welfare reform, health and education projects) will continue to be important, not least in an EU perspective. The Bank has a particularly important role to play in these so-called soft acquis areas, since the EU PHARE program will concentrate on the hard acquis area. We also support the Bank’s efforts to alleviate poverty in those areas which, so far, have not been helped by growth. We hope that the Rural Development Project will be a helpful tool to mitigate the rising imbalances in urban vs. rural areas.
The intention to integrate project implementation units with the regular administration structures, would be an important element of the institutional capacity building exercise. According to Latvian experience, the knowledge acquired from the Bank is highly valuable, both for the Government administration as well as its implementing agencies, like the Latvian Agricultural Finance Company. The latter was established four years ago as an implementing agency of the World Bank’s Agricultural Project in Latvia. At present (after merging with the Latvian Mortgage Bank), it successfully continues its own operations.

We appreciate contacts with NGOs and civil society, recently initiated by the Bank. At the same time, we acknowledge room for more developments in this direction. A well designed Bank communications strategy for Latvia would be a helpful tool, both to promote the Bank’s program in Latvia, and to reduce the risks associated with its implementation.

Latvian authorities recognize the risks mentioned in the document. At the same time, the Government does not consider them to be high risks. We are convinced that the Latvian Government’s commitment to its reform program will further reduce most internal risks and mitigate external ones.

Finally, Latvian authorities would like to express their appreciation for the excellent work of the Bank’s resident mission in Riga. They are also satisfied with the new regional structure of the Bank and location of the regional mission in Warsaw. The Government is looking forward to closer and more frequent contact with the Country Director, in assuring successful implementation of the Bank’s strategy.