Board Meeting of June 2, 1998
Statement by Jan Piercy

Mongolia: Country Assistance Strategy

We appreciate the work of the Bank staff in preparing the CAS for Mongolia. Our discussion on this document was postponed to take account of recently held elections. As the government was returned to power, and we understand that the authorities’ policy orientation and priorities remain in place, we welcome the opportunity to take up the same document today.

We fully concur with the Bank that poverty alleviation and mitigation must remain immediate priorities. As the CAS notes, the government has developed a positive track record in implementing reform measures in support of these objectives. As a result, Mongolia registered economic progress in 1997, with inflation down from nearly 60 percent to 17.5 percent, reserves up sharply to more than three months import cover, and growth up modestly to 3.3 percent.

Although we understand that there has been some slippage on the fiscal front since the government was returned to power, a revised ESAF has been successfully negotiated. We expect that the authorities will continue their prudent macroeconomic management, and to that end, we are pleased to support the Fiscal Technical Assistance Project before the Board today.

Similar progress has been made on the structural side. With assistance from the Bank, Mongolia is working toward creating a viable investment regime. Key to this effort have been the substantial privatization efforts recorded in 1997, including the privatization of 217 state-owned entities, and approximately 25 percent of housing nationwide. We hope that the authorities will be able to maintain the momentum: a key benchmark for the U.S. in evaluating future CAS scenarios will be progress in privatizing larger state companies and agricultural enterprises.

The document correctly identifies banking reform as a priority. The authorities deserve credit for averting a serious banking crisis in 1996, but further progress is still required in increasing institutional transparency and adherence to regulatory standards. This is critical to efforts to stimulate consumer confidence and increase needed direct foreign investment. However, we have some questions on whether the proposed Federal Intermediation Development Credit (FIDC) addresses the key bottlenecks in the sector. The recent
OED review of the Bank’s financial sector assistance pointed out that financial intermediary loans to support credit expansion in designated sectors have a checkered record. In general, directed credit is seldom effective. By contrast, we would urge more rapid progress in privatizing the state’s commercial banks, and a more active role for the IFC.

The CAS's emphasis on poverty alleviation in Mongolia is welcome, and the expressed intention the Second Poverty Alleviation Program to focus on rural development, especially rural SMEs, is important. Mongolia faces many unique challenges, such as the continued importance of the semi-nomadic sector, the artificial construct of many provincial centers (often situated for strategic, rather than economic, purposes), and the costs of providing social services to a dispersed populace. The Bank should take special note of these circumstances when implementing its rural development programs.

We strongly support the Bank's efforts to mobilize resources to train impoverished women and other groups to take advantage of microfinance opportunities. However, we remain concerned that a sufficient social safety net does not exist, especially in the education and health sectors in rural areas.

The CAS has identified environmental sustainability in Mongolia as a priority. We fully agree, and encourage the Bank to explore how it can address the problems of desertification and water quality. We are optimistic that Bank lending in this area can help mitigate the serious problem of air pollution, and anticipate that the proposed energy project in FY 99 will ensure that energy efficiency and high environment standards are promoted.

A final point concerns the crucial issue of donor coordination. We are especially concerned about the lack of overall donor coordination in Mongolia. Without more effective donor coordination, there is a very large risk of waste and ineffectiveness in the Bank's programs. We do believe that the CAS recognizes these risks. However, I understand that our Embassy in Ulaanbaatar has repeatedly raised concerns about the perceived lack of coordination of Bank projects with other donors, particularly the ADB. While we recognize that the ADB has effectively had the lead in Mongolia, we expect that the opening of the resident mission will allow the World Bank to contribute more to donor coordination in the country.