Statement by Jan Piercy
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Lithuania: Country Assistance Strategy

The Economic Context

1. The CAS for Lithuania comes at an opportune time as Lithuania is facing a more risky external environment tied to the Russia crisis. Under the circumstances, shortcomings on both stabilization and structural reform issues could well be magnified both with respect to their current effect as well as the challenges ahead. Hence, the CAS provides a good opportunity for Lithuania and the international community to take stock of the outlook, the risks ahead, and the focus of the World Bank group in that process.

2. The CAS notes (paragraph 37) that “with the completion of first generation reforms and the establishment of a market economy in Lithuania, the Bank’s focus is shifting to a second generation of programs designed to deepen the current reforms with a view to EU accession.”

3. Lithuania has indeed made significant strides in stabilizing its economy and beginning to reform its institutions and the micro economic foundations of the economy. However, we wonder whether the CAS has given due recognition of the serious near term problems of the fiscal and current account deficits.

4. The proposed scenario set out in the base case seems dependent on a recovery of trade, particularly exports. In that regard, it would be helpful to understand the degree to which Lithuania’s tepid recovery from the lows of late last year are based on factors related to recovery of historic external markets in the former Soviet Union or development of new markets in western Europe.

5. We would also appreciate staff’s assessment of the impact of the recent government shake-up on reform prospects in general

The CAS Program

1. We welcome the apparent close coordination among IBRD and IFC on private sector development objectives.
2. The CAS lending program is quite selective and focused but the overall CAS priorities seem very broad and unified primarily by the EU accession goal. A program designed to meet the requirements of EU accession will certainly overlap considerably with a development program based on the Bank’s core objectives of alleviating poverty and creating sound foundations for sustainable growth. However, the overlap is not total and the Bank should continue to be guided by its mandate when designing a CAS program to support the government’s agenda.

3. The non-lending agenda raises some questions in this regard. The CAS is heavily weighted toward non-lending services, which are provided at virtually no cost to the Government. Given that EU accession interests are driving much of the non-lending agenda, we wonder if at least some of the work might not more appropriately be taken on by other partners such as the EU, or provided on some sort of cost-recovery basis.

4. The CAS suggests that for the next three years lending will be focused on human development/social sectors and supporting investments for infrastructure and environmental management which are crucial for EU accession. These are important but with more sensitized external markets in the wake of the Russia crisis, it is also important to push forward with dispatch and renewed focus on the basic structural reforms -- financial and non-financial -- which enhance the inflow of external capital, as well as the accompanying technical, managerial and marketing know-how. Failure to do so could set back progress toward EU accession and lead to perceptions of back sliding, with negative consequences in external markets.

5. As noted in the CAS, the power sector presents considerable challenges. We urge the Bank to work with other partners already engaged in the sector to complete a comprehensive energy review of the Baltic region. Given the centrality of the Ignalina issue to EU accession, the commitments that the Government has undertaken on closure, and the economic implications of closure, sustained attention and close donor coordination is needed.

6. We note that under the external shock scenario, a SAL-type operation might be provided. One of the pre-conditions of a SAL would be delayed implementation of further phases of the Savings Restitution Plan (SRP). Presumably scaling back or delaying the SRP was considered infeasible under the base-case, despite the Bank’s view that the program exacerbates fiscal and current account challenges. Will it be politically feasible under what would probably be even more difficult domestic political circumstances?

Lessons Learned

1. The lessons learned as reported in the CAS focus almost exclusively on projects. These are crucial but we would have appreciated an analysis of other lessons as well. For example, did economic projections upon which the last CAS were built hold true? Were the risks of current account vulnerabilities and quasi-fiscal deficits reflected in the last CAS? What broader institutional lessons have been internalized to improve the analysis underlying this CAS?
Portfolio Performance

1. The relatively poor implementation performance of previous projects is troubling but we welcome the remedial measures that are being put in place, including on procurement problems, as well as the provision that preparation of new projects will not proceed if two or more Bank projects are performing unsatisfactorily.

2. In light of the considerable challenges of improving portfolio performance, we wonder whether the decision to appoint a full time external affairs person (in response to the Client Survey) was the most appropriate use of scarce personnel resources.