



OED REACH

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Based on the *Mongolia Country Assistance Evaluation*.

Country Assistance Evaluation: Mongolia

- Mongolia made considerable progress in the transition from a planned to a market economy during the 1990s, and in restoring growth. But Mongolia remains one of the poorest countries in East Asia and is handicapped by climate and geography.
- The Bank helped prevent a collapse in public services and key industries in the early 90s, but was slow to shift away from emergency support. Bank strategy was relevant, but effectiveness was limited by external shocks, lack of continuity in government policy, and strategic differences with other donors.
- Since the Bank accounts for only 10 percent of total aid flows to Mongolia, future Bank assistance should remain selective and focus on improving fiscal management and the private sector environment.

Background

Mongolia is a former socialist country, land-locked between Russia and China. With 2.5 million inhabitants and an area almost the size of Mexico, it is the most sparsely populated country in the world. Although it has important assets including gold and copper deposits and a large livestock sector, Mongolia's development is constrained by its harsh climate, isolation, and sparse population, all of which contribute to high costs of public service and infrastructure provision. Mongolia's transition experience since 1991 has been positive, but difficult. Significant progress was made in the transition to a market economy. Mongolia stabilized the economy in the face of a series of external shocks and implemented a range of reforms including removal of most price controls, privatization of small and medium industries, and changes in laws and regulations to enable private sector activity. This generated a positive supply response and contributed

to a rise in GDP per capita from US\$330 in 1995 to US\$390 in 1999. But the poverty rate remained constant at 36 percent while income inequality increased. The sources of growth have remained narrow, yielding only limited public revenues and employment, and they have not reduced Mongolia's vulnerability to shocks.

Bank Assistance

Among the Bank's positive contributions in the 1990s were avoidance of a collapse in key public services and industries in the early part of the decade; improved macroeconomic management; an improved legal and regulatory framework; and income support to a large number of poor. At the same time, efforts to help remove some key policy and institutional impediments to sustainable growth met with less success: key elements of the enabling environment for private investment are still lacking; interventions in energy, direct transfers, and public transport

conferred immediate benefits but did not stimulate broader sustainable changes in the respective sectors; and assistance in banking and enterprises proved inadequate to address extensive underlying problems. *The outcome of Bank assistance is thus rated as partially satisfactory, institutional development as modest, and sustainability as unlikely.*

Factors underlying the Bank's positive contribution include a strong commitment at senior government levels to the general direction of reforms; timely Bank responses to an uncertain and difficult environment in the early 1990s; and good collaboration with the IMF to support macro-economic stability. The Bank also practiced selectivity by not engaging in areas well-covered by other donors. Factors inhibiting a greater Bank contribution include (i) a delayed shift away from emergency support in its assistance strategy; (ii) limited linkage between the lending program and policy recommendations in ESW; (iii) inadequate agreement with other donors on strategic frameworks in some sectors; (iv) frequent changes in government after 1996, which adversely affected continuity; (v) political sensitivity and anticipated adverse short-term consequences, which caused hesitancy to implement some reforms; and (vi) several significant adverse external shocks.

Recommendations for Future Bank Assistance

The Bank accounts for only 10 percent of total aid flows to Mongolia, but it offers a unique perspective on many of Mongolia's problems because of its worldwide experience on transition economies. OED recommends that future Bank assistance remain selective and that it focus on improving the private investment environment and strengthening fiscal management. At the same time, the Bank should collaborate with the government and other donors to develop strategic frameworks in each key sector, even if direct lending is not planned.

Reactions of the Borrower and Management

The borrower largely agreed with the analysis of the CAE, and acknowledged that outcomes were not satisfactory in all sectors. The Government pledged to consider the issues which could be resolved on their side.

Management also agreed with most of the CAE's diagnosis and recommendations, but felt that OED's evaluation was not as positive as warranted. They argued that the CAE does not give sufficient credit to the Bank for helping avert a major catastrophe in the early stages of the transition, and they felt it would not have been prudent to shift to policy-based lending sooner, as proposed by the CAE, because there was not a strong government in place. They also felt that the ratings, particularly the unlikely rating for sustainability, were too harsh.



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