

DEVELOPMENT EFFECTIVENESS COMMITTEE

Chair's Summary of the Committee Discussion on 29 October 2008

MONGOLIA COUNTRY ASSISTANCE PROGRAM EVALUATION: FROM TRANSITION TO TAKEOFF

1. The country assistance program evaluation (CAPE) for Mongolia rated ADB's overall operations in Mongolia for the period 1997-2007 as successful, based on the study's top-down (strategic and institutional performance) and bottom-up (sector level performance) assessments. However, from the CAPE's key findings, ADB would be faced with the challenge of remaining relevant and effective, given that the country context has changed, and the past strategy may no longer be relevant in the future.
2. Management agreed with the overall assessment and conclusions of the CAPE, and informed that it would use most of the recommendations in developing the Mongolia Country Partnership Strategy (CPS) 2009-2013. However, Management and OED had differing views on three specific areas of recommendations in the CAPE, namely: (i) gradually shifting from serving primarily as a source of concessionary finance towards becoming a source of new knowledge and catalytic financing; (ii) focusing on a small number of key subsectors to be strategic and selective; and (iii) exploring subregional cooperation in capital market development.
3. Director, OED1 explained how a new strategy by ADB could respond to changes in the country context of Mongolia. He noted that given ADB's engagement in ten sectors and 21 subsectors, ADB would need to be selective and strategically focused to avoid spreading itself too thinly. He also clarified that OED's point regarding exploring the possibility for regional cooperation in the capital markets meant providing an opportunity for Mongolia to learn about good practices in neighboring countries, which could strengthen its institutional capacity, and exploring opportunities for cross-listing on securities markets.
4. Director General, EARD clarified that ADB had already substantially reduced the number of sectors it is engaged in and, while being selective at the sector level, ADB's operation in the Mongolia would need to be flexible at the subsector level. The current thrust is to focus ADB's support on four key sectors: transport, education, health, and energy. Country Director, Mongolia Resident Mission (MNRM) noted that from the preparation of the last CPS, ADB has already engaged in core sectors. Director General, EARD mentioned that ongoing discussions for the new CPS emphasize reorienting ADB's role with the changing country context, and supporting the government to be flexible in response to external shocks. ADB would continue providing assistance for basic infrastructure without neglecting its catalytic role. The two aspects are not mutually exclusive, but rather complementary, as catalytic financing is a fundamental role for ADB in some sectors.
5. Director General, EARD mentioned how ADB has taken various steps in the last 12 months to improve its portfolio performance in Mongolia, through allocating adequate staff resources for project implementation in MNRM and having project readiness filters in place for EAs. He emphasized that engaging Mongolia in a subregional approach to capital market development may not be feasible. Evaluation of capital market would depend on the impact of the mining sector and overall liquidity situation in the country. Management, however, is active in pursuing capacity building in institutional set-up, prudential regulation, and regulatory framework in the capital market.

6. DEC presented differing views on the issue of the development of a regional capital market for Mongolia. Concerns were raised on the appropriateness of the recommendation given the size of the economy, and geographical and political considerations.

7. One DEC member noted that being too selective in sector engagement would limit ADB's flexibility during implementation period. While another DEC member questioned the quality of project supervision and client responsiveness if ADB continues to engage in too many sectors.

8. Some DEC members also inquired about the impact of the current financial crisis on Mongolia. Country Director, MNRM considered the current financial situation as an opportunity to send signals to the government about the external environment and about the risk that the current situation may not be as good as previous projections.

Conclusions

9. DEC welcomed the Mongolia CAPE, and noted that, given the volatile situation with commodities prices and dependence of Mongolia on mining resources, there were sufficient challenges ahead in the development of Mongolia.

10. DEC noted that Management has concurred with most of the recommendations of the CAPE including strengthening the strategic focus in ADB operations by being selective in terms of sectors and confining itself to transport, education, health, and energy. DEC recognized the need for flexibility at the subsectoral level within these sectors.

11. As regards capital market development, DEC underscored the need for having a proper regulatory regime in Mongolia to ensure the robustness of the capital market in Mongolia irrespective of its size.

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