

## **MANAGEMENT RESPONSE TO THE COUNTRY ASSISTANCE PROGRAM EVALUATION FOR MONGOLIA: FROM TRANSITION TO TAKEOFF**

On 23 October 2008, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

### **I. General Comments**

1. We welcome the Country Assistance Program Evaluation (CAPE) for Mongolia. We find it comprehensive and carefully researched. We note that the CAPE has rated ADB's assistance to Mongolia as successful. We agree with this assessment and the overall conclusions of the CAPE, including recognition of the difficulties faced as the country strategy implementation mechanism shifted from program to investment projects.

2. The CAPE indicates that Mongolia needs to (i) exploit its mineral wealth as efficiently as possible and use that wealth to combat poverty; (ii) build human resources; (iii) expand opportunities for private sector-led employment creation; and (iv) reduce its vulnerability to external shocks. We concur and will use these and other CAPE recommendations in the development of the Country Partnership Strategy (CPS) 2009-2013 which is currently under way.

### **II. Comments on Specific Recommendations**

#### **Recommendation 1. Country Context and Repositioning ADB's Role**

3. We generally concur with recommendations 1 (ii)–1 (iv). However, we question the validity of recommendation 1 (i), and question its coherence with other recommendations, and the country context. Mongolia is a small, financially and environmentally vulnerable country. It is too early for ADB to consider shifting from concessionary finance to a source of knowledge-based support. Basic institutions and service delivery are still at very rudimentary levels of development. Indeed, recommendations 1(ii)–1(iii) correctly state that there is a need to continue developing capacity in a number of critical areas. This includes sound and transparent financial management, service delivery in urban infrastructure and improving education systems. This is crucial to ensure that both Government and ADB investments are used efficiently. Further, as pointed out in recommendation 1 (iv), support is required for protection of natural resources. ADB is well placed for this activity given our emphasis on safeguard policies and use of clean technologies. We foresee a need for ADB to continue concessionary financing in the medium term as well as increase efforts in knowledge development and transfer.

## **Recommendation 2. Strengthening Strategic Focus and Sector Selectivity in ADB Operations**

4. We appreciate OED's views on selectivity in recommendation 2 (i), but do not concur. Our view is that selectivity can be applied at a sector rather than subsector level given Mongolia's size and developmental challenges. The program must be sufficiently flexible to allow effective dialogue and project development for the medium term, especially in an economy that has the potential to grow quickly. We also have reservations with regards to recommendations 2 (ii) and 2 (iii) regarding the very narrow focus for assistance to areas where ADB has a long track record. While the strong focus will be on areas within our long-term relationship, new issues such as climate change, environmental concerns associated with new energy technology, and cross-border services are critical for Mongolia's future. In Mongolia, it is important that policy and institutional development receive long-term continuous support from ADB across a broad range of issues, and this is an expressed desire of the new government. ADB's continued assistance, provided in a flexible and adaptive manner to respond to opportunities for reform as they arise is important to guide and sustain this process.

## **Recommendation 3. Supporting Private Sector Development and Fostering Public-Private Complementarity**

5. We concur fully with the three recommendations. The Government and ADB will need to tackle the following challenges: (i) tariff reforms—establishment of an independent tariff agency, monetization of subsidies, etc.; (ii) enforcement of public policies—strict adherence to the city master plans, transparent licensing systems and procedures, etc.; and (iii) reforms of public governance and management. Well-developed basic, vocational and higher education systems are sensible investments so that the country's youth will be able to compete globally and the economy will diversify. Skills training and improving the quality of basic and tertiary education are areas where ADB can provide much needed assistance and significant impact. Work in development of financial markets, particularly cross-border financing and longer-term financing, will be explored during CPS development.

## **Recommendation 4. Fostering Regional Cooperation to Boost Trade and Investment Flows**

6. Regional cooperation is especially significant for Mongolia as a landlocked country with a narrowly-based economy. We concur with recommendations 4 (i), 4 (ii) and 4 (iv). The Central Asia Regional Economic Cooperation (CAREC) membership offers Mongolia an opportunity to strengthen physical and economic links with neighbors in the Northeast Asia region and better realize growth potential. Supporting transport corridors and trade facilitation are priorities under the framework of both CAREC and Mongolia-PRC cooperation. Private sector participation is also highlighted as a theme of the CAREC program, to which more efforts will be devoted. The ongoing policy dialogue to

promote cross-border power projects, financial services, and regional trade will continue to be supported and further strengthened.

7. Recommendation 4 (iii) suggesting exploration of a subregional capital market would be an interesting approach for a small country. However, given geographical and political considerations, a subregional approach may not be feasible. It would be more reasonable to assume that suitably-sized Mongolian companies seeking investors (presumably mining firms at the current time) would choose to maximize their potential market outreach opportunities by listing on key international exchanges where many other natural resource-based companies list. In addition, the financial sector is small and still at an early stage of development with limited human resources available for ensuring robust financial institutions. Therefore, we do not concur with the suggestion on subregional capital market development at this point. As indicated in an earlier OED study, capital market development in small economies, even at the subregional level, may not be an efficient use of scarce resources.

#### **Recommendation 5. Improve Portfolio Performance and Client Responsiveness**

8. We support this recommendation. We note the successful rating OED has given to the Mongolia program. This is directly related to significant efforts taken upstream at the concept design stage and during project implementation. Indeed, Mongolia Resident Mission established a Project Administration Unit in 2007 to further improve project supervision, monitoring, and implementation. In addition, sector risk assessments have recently been completed in the key sectors of education and urban transport as part of the CPS process, and action plans are being developed to strengthen Government project implementation capacity.

9. Regarding donor coordination, ADB has the lead in coordinating key sectors such as transport and education where a sector-wide approach is currently under discussion. We are also coordinating on a daily basis with agencies such as the IMF and the World Bank which are located in the same building, and regular donor meetings and roundtables are held with ADB. Therefore, we believe that efforts to improve portfolio performance have been underway for some time, and new activities and opportunities continuously explored in many areas, particularly donor coordination. These efforts have led to the success of the Mongolia program.