Statement by Godfrey Gaoseb
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Mexico: Country Assistance Strategy

The Mexican authorities deserve commendations for steering the economy through an extremely difficult period, particularly in the aftermath of the Asian financial crisis. That the country has emerged from this period relatively unscathed in comparison to many countries in the region is testament to the timely and appropriate policies that they have instituted to protect themselves against unforeseen developments. The period ahead, however, is likely to be equally challenging, given, among other things, the country's efforts to decentralize, a relatively volatile external environment, persistent financial sector problems as well as the political transition in the runner-up to the Presidential elections next year.

Against this background, we think the World Bank Group's country assistance strategy, crafted closely with IFC, has enough flexibility built into it to enable the Bank to assist the Mexican authorities as they respond to the various challenges that are likely to emerge before and after the Presidential elections next year. Given the magnitude of the task, we note that the Bank and IFC are concentrating on those areas where they have a comparative advantage. We therefore support the CAS.

There are, however, several issues discussed in the paper on which we would like to comment:

First, the paper identifies Mexico's development challenge as a socially sustainable adjustment process. The CAS is candid in its presentation of this issue, and notes the efforts being made in different sectors to meet this objective and the authorities' awareness to adjust the economy in a way that protects the poor. In this regard, we note the many reforms and related programs being undertaken in the social sectors. One sector where there have already been extensive reforms and where a significant impact could be made on poverty reduction is agriculture. The CAS identifies the promotion of agricultural productivity, fostering
employment and micro-enterprise development in rural areas as three of the major challenges facing the Mexican authorities in this area. While meeting these challenges could indeed help to reduce poverty, we see little evidence of concrete programs in the CAS. It is, in our view, an area that deserves to be dealt with within a sectoral framework rather than the single operation envisaged in FY00. The acuteness of rural poverty in Mexico, particularly in the southern states, makes it an issue that has political and security considerations, and hence needs to be addressed with the urgency that it deserves. We would therefore urge that the expansion of the marginal areas project be undertaken expeditiously.

Second, the private sector will need to play a more dynamic role than it has done in the past, and the government's efforts to remove impediments to its development are commendable. To make a significant impact on poverty, particularly urban poverty, it is important that initiatives be undertaken to assist the SME subsector. In this respect, we endorse the objectives noted in the CAS, namely, reforming industrial promotion, removing remaining policy impediments in the business environment and fostering PSD in less developed regions, as well as the partnership approach discussed in paragraph 75.

Third, one of the major challenges facing Mexico in its evolving political environment is decentralization. This is an area where the spirit of partnership between the government and its development partners is likely to be tested. As indicated in the CAS, the pace of decentralization has accelerated recently, thus putting pressure on the government to reform, strengthen and maybe even set up the requisite institutions to implement the program. Two areas where action is needed, and which we believe are critical to the success of the program are rural banking, and rural infrastructure, which should help to facilitate economic activities in the heretofore poverty-stricken areas. Since decentralization is an area which is evolving and therefore subject to mid-stream changes, flexibility will need to be exercised.

Fourth, we note the extensive consultations that were undertaken in the course of preparing the CAS. These consultations should continue during the implementation of the CAS so that in the event of some or all the risks identified in paragraph 80-84 materializing, adjustments could be made. These adjustments can be made effectively, however, if all stakeholders are informed of, or have an input into, the decisions to make the requisite adjustments.

Fifth, since the fragility of the financial sector is a serious cause for concern to the Mexican policy makers, we are pleased to note the efforts being made to improve the efficiency and transparency of the sector, as noted in paras 27 and 28. We hope this sector will continue to be given a high priority by both the country itself and the World Bank Group, so that it is able to adjust to changing circumstances, and to help in strengthening investor confidence in the country.

Finally, we commend the level of coordination with the other organizations, particularly the IDB, and the leadership role of the Mexican authorities in guiding donors towards specialized areas of operation. We would also like to commend Bank and IFC Staff for assisting the government in designing their reform programs and for this well-written CAS.