Board Meeting of Thursday, May 1, 1997
Statement by Joaquim Carvalho

Poland: Country Assistant Strategy

The Bank Group’s relationship with Poland since 1990 when the country began to borrow from the IBRD provides valuable lessons. At the beginning of the relationship both the Bank Group and Poland had admittedly not had the experience to address some of the very difficult issues associated with the process of transition from a command to a market economy.

With more than seven years of experience by both parties, two of the most important lessons that emerge are that first, the timing as well as the sequencing of policies are as important as the nature of the policies themselves, and second, that consensus building for reform is a necessary prerequisite for both ownership and successful implementation. What emerges in the present Country Assistance Strategy is a high degree of realism which not only takes into account the lessons of the past, in view of its ‘mixed success’ (para 18), but also what the Bank can accomplish, given the high likelihood of Poland accessing other sources of finance, including the capital markets, and given its impending integration into the European Union, with all that that entails. We therefore wish to commend staff for crafting a CAS that reflects these realities and which also supports the authorities’ development objectives.

As we did at the time of the 1994 CAS, we wish to commend the Polish authorities for their continued economic achievements, including a consistently high growth rate at 5 percent, further reductions in the rate of inflation (expected to be 7 percent by the year 2000), and continued advances in the country’s external sector, with an increasing share of trade in GDP. However, in relation to the CAS itself, we have a few comments.

First, the existence of the “unfinished agenda” noted in para 18 is a reminder that policies that might have short- to medium term social and political costs need to be introduced and sequenced differently from others since these require a consensus to be reached, a process that necessarily takes time. We encourage the Polish authorities to continue with their efforts at reaching a consensus soon, particularly in the SOE sector, as well as in the social security and pension system, which are likely to have a negative impact on the country’s fiscal position.

Second, Box 1 on page 3 provides a profile of poverty in Poland and notes that “increasingly, the poor are people who are not well educated...” and adds that efforts to address poverty issues and to assist these segments of society focus on improving the education
system will be intensified. In this regard, we are pleased to note the Polish authorities' intentions to strengthen human capital growth, and are equally pleased that despite mixed experiences in the past, the Bank intends to resume its policy dialogue in this area and undertake investments in education and vocational training.

Third, we agree that the objective of enhancing market institutions and productivity in agriculture is one in which the Bank Group, given its long world-wide experience in the sector, could very well provide valuable assistance to Poland. Yet it is also an area that could put the Bank on a collision course with the EU in terms of policy differences. We would caution, therefore, that the Bank proceed with its programs after ensuring that there are no significant differences remaining.

Fourth, we support Poland's efforts to put in place mechanisms that help to sustain private sector growth, and hence ease the country's integration into the European Union. While we endorse all the activities in paras 33-39, one area where the Bank Group can make a significant contribution to Poland's growth prospects is in the development of the financial sector. We believe a coordinated Bank Group strategy, implemented in parallel or in concert with other players, especially the EBRD, could yield significant results.

Fifth, as the CAS points out, the impending EU accession means that Poland will have access to other sources of finance, including EBRD and EIB resources, as well as the capital markets. The Bank's non-lending services, including sector work and policy advice, could then become quite significant. We believe, however, that unless there is a clear vacuum of expertise, the regional banks should either be given the opportunity to undertake some of the functions that the Bank would have undertaken, or the Bank should do so in a collaborative manner.

Sixth, we endorse para 65 on the decentralization of management of country assistance. We believe that the nature and size of the program in Poland calls for a strong presence on the ground, thus facilitating both the implementation and decision-making process.

In closing, we wish to commend Bank staff for their role since 1990 in assisting the Polish authorities to transform the economy and for the economic gains made thus far.

Thank you.