I welcome this opportunity to make some selective comments on this latest CAS for a major client. Given the Bank Group’s overall objective of poverty reduction, the blunt assessment in Box 2 of the CAS that “Poverty in Mexico remains a very formidable challenge” lends added interest to our discussion. So does the context provided by a series of predecessor CASs, and the evolving economic situation in the country over the last decade or so.

Before turning to the specifics of the proposed Assistance Strategy, let me offer some general observations. I agree with the positive assessment of Mexico’s economic development since the late 1980s that is stressed in the document before us. Two points are striking. First, there is no doubt that the liberalization and reform process begun in the late 1980s has paid dividends—both in the long-term acceleration of growth which indeed marks a structural break from the past; and also in making the economy more resilient in the face of internal and external shocks. Second, the recent track record in macroeconomic management, as the Mexican authorities have had to grapple with a new series of shocks just after recovering from the 1995 crisis, is pretty encouraging. For all these positive developments, reflected in the reduced but still acceptable economic growth rates, the authorities and the Mexican people deserve genuine commendation.

If from this perspective, the glass is half full, from another it is half empty. As the Mexican authorities are well aware, some fundamental challenges remain to be addressed. I think the CAS document has this diagnostic aspect broadly correct but there are just a few points I would emphasize.

Two challenges remain quite central. The first is to address the increasingly-evident dualism in the economy between the dynamic and growing export sector, with access to external finance, and the domestic sector, dominated by small and medium enterprises, which has yet to
benefit from productivity and efficiency gains. When the geographical element is factored in, the disparities increase. This presents particular challenges for addressing rural poverty, as two-thirds of the rural population in the southern states is considered poor, compared with one-third nationwide. Given Mexico's highly urbanized status, however, there is also an immense challenge in tackling urban and peri-urban poverty issues. The second central challenge is of course that presented by the financial sector, which is far from its optimal role of facilitating financial intermediation so that scarce resources are directed to highest uses, and indeed is a major bottleneck in the whole system. The present CAS rightly points out that progress has fallen far short of the goals envisaged in earlier CASs. I have looked at this Chair's previous interventions on Mexican CASs, and note they have laid particular stress on the financial sector reform; indeed, as the observations made on this theme in 1995, 1996, and 1998 unfortunately retain their validity, I will not repeat them.

Of course, superimposed on these two central challenges is a whole set of issues set out in the third section of the CAS, concerning the evident need for social sustainability, for removing obstacles to growth and maintaining macroeconomic stability, and for more effective public governance. The focus on social issues is especially compelling. So is the stress on what seems an irreversible process of decentralization. It is unfortunate, but nonetheless a fact of life, that this complex agenda is facing the Mexican authorities just as they enter a time of uncertainty associated with upcoming presidential elections, as set out in the second section of the CAS.

Let me now turn to the proposed Bank Group assistance strategy. My reaction is that it is indeed generally appropriate under the current circumstances to consider this as a "framework menu, both in financial amounts and analytical focus" (para. 49, page 15). I note, too, the desire not to overemphasize the use of quantitative progress benchmarks given the potentially volatile situation, and in light of past experience. But I think flexibility has gone perhaps a little too far. Reference is made to some $5.2 bn. in commitments through FY01, a third of which in the form of adjustment loans, but one has to wait to page 30 to find out the projected IBRD commitment envelopes for each fiscal year. I would be more inclined to support this rather tentative assistance strategy if given assurance by Management that when individual operations come before the Board, they will be without exception clearly positioned within the tentative CAS framework.

Let me conclude with a few specific points and questions: mention is made in paragraph 37 of some of the downside risks associated with maturity structure and servicing costs of the consolidated public sector debt. While I recognize the special situation involving the IMF rollover and the potential Standby, perhaps staff could say a few words about the share of IBRD debt. Specifically, I note from the bottom of page 38 that net transfer from the World Bank to Mexico were negative to the tune of over a billion dollars in 1996 and 1997. Could staff indicate the final figures for 1998 and prospects for 1999 and the year 2000, with and without any adjustment lending?

Now a question for IFC; I have noted the recent IFC papers on private sector financing of health care and education and would like to ask IFC to expand a little on the statement made in paragraph 16 of Annex B10 (page 57) about the potential in these areas, which of course have
high development impact potential, unlike certain other investments. Incidentally, I found this Annex as a whole on the Private Sector Strategy well-formulated.

Finally, some comments about the way the CAS deals with political and participation issues. Frankly, I am not sure if there is much value added by including such less-than-profound observations as that at the end of paragraph 11, page 3, to the effect that the recent budget agreement was “largely influenced by political expediency.” If there is any national budget not influenced by political expediency to some degree or other I would be interested in learning of it. In paragraph 60, at the top of page 20, reference is made to “areas where the WBG has neither the expertise nor the mandate to intervene (for example, the political process).” As the mandate is quite clear – I believe the Articles have a reference to “Political Activity Prohibited” – the reference to expertise is irrelevant and should be deleted.

Paragraph 87 on page 36 has a reference to the consultation process with a whole string of representatives “…of NGOs, the business community, unions, the banking industry, politicians, religious groups, academia, independent think tanks, and the media”. It is not clear what --contradictory?-- advice as to the Bank Group strategy these representatives offered, or what weight was given to the views of the different parties listed. Could staff say a few words on the substance of the dialogue?

Overall, I wish the Mexican authorities and the Bank Group staff who are collaborating with them every success in advancing the ambitious agenda for economic development in the challenging years ahead. I hope that the next full CAS will have further substantial progress to report.