We welcome the opportunity to discuss this Country Assistance Strategy for Mexico and support the Bank Group's lending and non-lending proposals envisaged in the CAS for the next three years. We commend staff for engaging government and other sectors of the Mexican community in an extensive consultative process during formulation of the CAS.

Significant progress has been made in a number of key and important sectors since the publication of the previous CAS. However, many challenges remain.

The current CAS once again reflects the joint efforts of IBRD and IFC in supporting the government's development efforts in targeting social improvements, removing obstacles to sustainable growth, maintaining macro-economic stability in the context of globalisation, and enhancing public governance. However the Bank Group and the Mexican authorities face a stern test leading up to next year's Presidential elections and beyond. In this respect we agree that understanding the client's political environment and allowing program flexibility are important considerations in implementing the CAS. That said, we have some nervousness about the statement in paragraph 50 that "the use of progress bench marks ......should not be overemphasized".

We support the Bank Group's selective approach in targeting activities that have an impact on poverty and/or growth or where the operational focus is on activities for which broad consensus already exists.

We also endorse the thrust of the base case lending scenario proposed under the CAS given the assumption that the overall reform agenda is maintained, that on-going sectoral initiatives are pursued and on the basis that accessing private external financing is limited and/or too costly. The proposed base case lending also assumes no substantial slippages in program
implementation prior to the Presidential election next year and a stable domestic financial
environment. In the event of major slippages in the lending proposals we support the lending
program shifting to a lower case scenario under the conditions/triggers proposed.

It is in this context that we would underline the importance of ensuring that "flexibility"
in program design does not translate to a softening in the Bank's and the Mexican authorities',
commitment to reform. Moreover, given the apparent reluctance of the Mexican Government to
enthusiastically and comprehensively embrace the reform agenda, we would be interested in
management's further comment on the rationale for fully one third of the proposed $5.2 billion
commitment being in the form of adjustable loans.