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Poland: Country Assistance Strategy Progress Report

This progress report provides a useful update on the implementation of Poland's Country Assistance Strategy approved May in 1997, the positive achievements recorded in macro-economic stabilization and other areas. With regard to the remaining unfinished agenda, the progress made in the implementation of Poland's privatization program is impressive. Other positive developments include reduction in inflation and fiscal deficit, trade liberalization and improvement in environmental standards. We welcome the success recorded in the implementation of complex reforms in the social sector, enterprise restructuring and privatization as well as in Poland's negotiations relating to EU membership. Nevertheless, the Polish authorities still face daunting challenges.

Public support for the implementation of the reform program is yet to be canvassed given the difficulties the authorities have encountered in carrying the public along with them. The Polish authorities should therefore redouble their efforts towards achieving consensus. While the consensus-building process may take time, it is crucial for minimizing the social and political costs of the reforms. In this regard, we believe that Bank assistance to the government will be of vital importance at this crucial juncture of the country's transformation process. The World Bank Institute could play a very important role by organizing workshops and seminars for the civil society and non-government organizations to sensitize them to the benefits of reform and helping the authorities to muster the support of the diverse groups of stakeholders.

While we note with concern the increase in poverty levels in the countryside, as a result of a loss of markets for agricultural products in Russia and Ukraine, we welcome the proposed strategy to address the problem in order to ensure that benefits from economic growth also spread over to the rural communities. The government's proposal to restructure agriculture is a step in the right direction since 40% of the population lives in the rural areas and engages mostly in agriculture. Poverty reduction in the rural areas can only be tackled if agriculture reform is

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successfully implemented. In this connection, the proposed rural development program that aims at facilitating private investment and creating new jobs in poor rural areas has our strong support. We believe that creating new business opportunities, especially through provisions of micro-credit, will assist in the creation of off-farm jobs and in absorbing excess farm labor.

Bank assistance to private sector development through the establishment of regulatory instruments and market economy institution, the development of the financial sector and basic infrastructure is a strategy we strongly support. In this connection, we applaud IFC's strong presence in Poland. The more the country attends to its private sector development, the more the opportunities for IFC's assistance will be, especially in areas such as health care, infrastructure and support to financial market development. We believe that IFC involvement in small and medium sized enterprises will be especially valuable.

We are pleased to note the improvement in the overall portfolio performance. We hope that the strong presence on the ground with the decentralization of the Bank's country unit for Poland will give the Bank the opportunity for quicker response to government requests and deepening of the Bank/government dialogue.

With respect to the social sectors, we welcome the government's plan to address the remaining issues in these sectors. Reform of the pension system is essential for fiscal stability. In implementing its structural reform agenda, the need to protect public expenditure for health, education and other social safety net programs cannot be over-stressed. We are pleased that the government has made substantial progress in completing work on the legal and institutional framework for the pension reform, reform of the regional administrative setup as well as restructuring of health care financing and the education system. We highly recommend Bank support in these areas.

We note that the Bank's non-lending assistance in the form of policy advice and technical assistance has been particularly rewarding to the Polish authorities. We wonder whether the country has reached the point where it can bear a reasonable proportion of the cost of these non-lending services in the future. We would welcome staff comments on this issue.

The collaboration with other multilateral and bilateral institutions in Poland is impressive. We hope that all the development partners of the country will continue to carry out their roles according to their comparative advantages. We are particularly pleased that the government has found the services of the Bank very essential in assisting the country in its quest to access the EU.

Finally, we support the Bank's readiness to continue to support Poland's reform agenda and wish the authorities success in implementing it.