I. Background and Program Objective

The Non-lending Technical Assistance (NLTA) to support policy dialogue and consensus building in El Salvador was a just-in-time response to support the Bank’s re-engagement in the country in the context of a transition period characterized by: a) the political transition process in the country including the presidential and Congress pre-election and election periods and the change of administration; b) the impact of the global economic crisis hitting a highly vulnerable local economy; and c) the preparation of the Bank’s Country Partnership Strategy (CPS) aiming at re-engaging and reactivating a program in a country with minimum activity in the past four years.

A country characterized with a highly polarized political system was going through a historic transition period with a new government coming from the opposition party for the first time in 20 years. The transition that took place in mid 2009 was also marked with the strong hit of the global economic crisis that impacted on the overall country’s macroeconomic performance and seriously limited the capacity of the government to respond to urgent needs.

Within this context the proposed NLTA was conceived to provide support to the country policy dialogue by facilitating the discussion of critical aspects in the context of the adverse economic and social situation.

In general the proposed activities were geared to:

- Create through dialogue and consensus building activities an improved framework for policy formulation and implementation.
- Improve overall governance through the creation of a mechanism for constructive dialogue and mutual understanding between different social and political groups, including the private sector organizations, civil society and political opposition and other disenfranchised groups.
- Articulate a set of national priorities that will facilitate discussion, negotiation and implementation of most urgent policies, projects and programs.

More specifically, the NLTA was to focus the support to critical areas relevant to the Bank’s program dealing with the fiscal situation and the development of short-term responses to mitigate effects of the crisis. These urgencies would also serve as appropriate entry point to find common grounds of understanding among various economic, social and political players.
II. Description of activities funded with MGPR funds

In the context of discussions for the preparation of the new CPS for El Salvador, MGPR funds came quite handy to expand the support to the internal dialogue process by supporting a set of selected activities including the preparation of issue papers and policy notes in critical topics as well as the support to specific dialogue efforts and initiatives from relevant groups and stakeholders.

Specific activities supported with these funds were organized around three main areas:

a) Support to fiscal policy dialogue in the context of the crisis;
b) Development of issue papers and policy notes in the area of governance and state modernization; and
c) Support to the CPS preparation process through the analysis of the political context and the mapping of relevant political players and negotiation processes.

Fiscal policy dialogue

Given the high priority and relevance of the fiscal issue in the context of the crisis, the NLTA supported the organization and operation of a group of local independent analysts who served as facilitators and mediators to help political players discuss and agree on specific topics related to the country’s fiscal agenda. This activity that was co-funded with the UNDP organized its work in two big phases, a first one to support dialogue before the elections and inauguration of the new government; and a second phase once the new government took office.

During the first phase, the group worked and coordinated actively with the Bank and other multilaterals including the IMF and the IDB to help understand the overall economic situation and the way the global economic crisis was about to hit the Salvadorian economy in the midst of the political transition period. Coincidentally, the fiscal policy discussion led to the establishment of a stand-by agreement with the Fund and the preparation of two big policy-based lending operations with the Bank ($450 million) and the IDB ($500 million) geared to support the government finance a growing fiscal deficit resulting from the global economic crisis. During this period, the Fiscal Dialogue Supporting Group (FDSG)\(^1\), partially funded through the NLTA, actively promoted the discussion on the urgency and convenience of the proposed programs and loans and sponsored a number of formal and informal meetings and discussions with relevant stakeholders to reach agreements during a complex and difficult period marked by the political cycle.

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\(^1\) The Fiscal Dialogue Supporting Group was conformed under the initiative of Roberto Rubio, a well recognized independent economist, who invited other four local senior economists (including former ministers and academicians) with different profiles and political affiliations, to facilitate dialogue between political players on structural economic and fiscal issues.
Specific analysis and prospective reports were prepared and disseminated to build awareness of the situation and to encourage political players from the government and the opposition to make joint decisions to help mitigate the risks of a major economic recession coming about as an effect of the crisis. As a result, unprecedented actions and agreements were reached among political players. The government and the opposition agreed to support in Congress the approval of the associated lending and, after almost 4 years without reaching such level of support, the Bank and the IDB were able to reactivate their lending programs and facilitate a total of $950 million to help the country face the difficult fiscal situation during the political transition period.

In second phase of support, right after the new government took office in June 2009, the FDSG continued its work by engaging new leaders in government and in opposition to offer their support in the new circumstances. By that time the crisis started to impact severely on the Salvadorian economy and particularly on the fiscal front. The government decided to focus its attention to the short-term issues and put together an “anti-crisis plan” that included a number of actions including the need to restore control of the fiscal balance. Negotiations with the IMF were resumed and a short-term fiscal package was sent to Congress as part of a mitigation plan to restore revenues and fiscal equilibrium. The proposed fiscal package included additional borrowing from multilaterals that would also require qualified support in Congress.

The political situation evolved in an unexpected manner with the government showing higher levels of independence from the ruling party and the opposition confronting divisions and internal crisis. Within this context, the FDSG internally discussed and assessed the new situation and decided to focus its work to a medium and longer term agenda. It was clear that the impact of the crisis will have longer-term effects on the economy and that the country would need to face major policy changes in order to resume the path of growth and fiscal sustainability after the serious impact of the crisis. Thus, the group worked and put together an issue paper containing a number of possible scenarios resulting from the crisis and the urgency to build consensus around a long-term fiscal agenda for the country. The document also contains specific proposals on processes and a methodology to sponsor and support the dialogue and consensus building process in this area.

Currently, the government has started to work on its national development plan and included the so called “Fiscal Pact” as one of the critical elements to it. Other stakeholders in the country including the opposition parties and the private sector have already understood the importance and urgency to engage into a dialogue process to agree on long-term agreements on the fiscal agenda. The proposed methodology prepared by the FDSG with the support of the Bank’s NLTA will serve as a handy input to this critical discussion.

**Governance and State Modernization**

The topic of governance and state modernization has also been of high relevance in El Salvador during this past period. Although significant progress was observed in the past
years in areas related to the overall government effectiveness and transparency, El Salvador continues to rank low in most of governance related perception indicators. As the new government took office in June 2009 after 20 years in opposition, concerns were raised regarding implementation capacity of an inexperienced incoming administration and thus the issue of public sector management was also relevant during this transition period.

The Policy Dialogue and Consensus Building NLTA identified this as one of the critical areas where to provide support. In connection with the preparation of an associated technical assistance loan to support public sector modernization, the NLTA supported selected activities to help identify and build consensus around strategic areas of intervention on governance and PS management. Specifically, the NLTA supported an initiative launched together with the Technical Secretariat of the Presidency. With the support of two senior consultants, a stock-tacking exercise was conducted and an issue-paper on State and Public sector modernization was prepared and discussed with several stakeholders including the government, the political parties, the private sector, the academia and others. Two rounds of consultations were conducted by the experts in order to not only gather recommendations and concerns but also to validate findings and recommended actions.

As a result of this work, right prior to the election period, a document was released with specific guidelines and priorities for a public sector management modernization agenda. Furthermore, initial agreements were reached among representatives of this group and the set of priorities were summarized and presented to technical advisors of the two major competing parties.

After elections took place and the new administration took office, the discussion on the need to further strengthen public sector institutions and its capacities was resumed and prioritized as one of the items to be specifically supported under the Bank program in the country. As a result, a specific lending operations and a set of non-lending activities were identified and included in the new CPS for El Salvador. Moreover, as most of the background and analytical work was well advanced through this NLTA, the Bank was able to immediately respond to government demands and put together an operation named Fiscal Management and Public Sector Performance TAL, approved by the Board of Directors in November 2009.

**Political economy and the CPS**

The third area supported by the NLTA focused its attention on the need to get a clearer understanding of the political context in the country and more specifically on the functioning of key political institutions including Congress and the political parties.

As the Bank started to prepare a new CPS gearing to reactivate and reengage lending and non-lending activities in the country and considering a recent history of a failed program due to political constraints, it was of utmost importance to develop some level of
knowledge of the country’s political dynamics that could affect the implementation of the new program.

To this end, the NLTA supported the preparation of a political economy analysis of the decision-making process of public policies that require Congress support and political consensus. This was of particular relevance to the Bank if it was to reactivate a new lending portfolio that would require joint support from the ruling and opposition parties. The study was conducted by a local political scientist with extensive experience and knowledge of both Congress procedures and political negotiations. The study included a thorough systematization of the country political context, the possible scenarios, the players and the formal and informal negotiation procedures to reach consensus and make decisions. The document also included specific recommendations as to how to engage, participate and ultimately influence on such complex process.

Given the characteristics of this work, the dissemination of the interesting piece was for prepared for internal dissemination purposes only. A number of meetings were held with the Country team and task teams to help them refine their engagement strategies when preparing their activities and operations and particularly when approaching the client and other stakeholders in the country.

The most relevant result out of this effort is connected with the specific strategy that the Country Office was able to design to engage both the new government in order to set the priorities for the new program and the other relevant stakeholders to help build the necessary support for the program to get implemented. The new CPS approved by the Board in November 2009 was build taking into account these important elements and contains itself the strategy that should help getting the necessary support for its success.

III. Main Results/Outcomes of the Project

Most relevant results and outcomes of the NLTA are as follow:

**Fiscal policy dialogue**
- A Fiscal Dialogue Supporting Group was established to support fiscal dialogue efforts during the political transition period.
- The ruling and opposition parties reached consensus to approve a $950 million borrowing package from the WB and IDB to mitigate fiscal effects of the global economic crisis during the transition period.
- A proposal and methodology for a medium-term fiscal dialogue process was prepared and serves as an input to the ongoing “fiscal pact” process.

**Governance and State Modernization**
- A set of priorities for state modernization and governance were identified through a participatory process and a policy note was prepared to serve as an input during the transition period.
- A new Fiscal Management and Public Sector Performance program was prepared and approved using inputs from the state modernization policy note.
**Political economy and the CPS**
- The WB country team was informed about political dynamics in the country to help preparing their activities and engaging with the client at the government and other stakeholder levels.
- A political economy analysis informed the preparation of the CPS to include necessary activities to mitigate political risks for its implementation.

**IV. Lessons learned, innovative knowledge sharing approaches and dissemination efforts undertaken**

**Flexibility and just-in-time response**
The NLTA was particularly helpful to provide just-in-time responses in a context of a changing environment to support policy dialogue and consensus building activities. The NLTA proved to be particularly relevant and effective as it was flexible to help selected activities that came about during the process. It was difficult to specifically identify which activities would be supported at the design and concept phase and thus the flexible approach was one of the critical elements for a successful task. Although most of the reported outcomes are not totally attributable to this small NLTA, the capacity to flexibly respond and provide focused support to some of these activities was critical to achieve such results.

**Qualitative products**
Other important lesson is connected with the nature of the products and results the NLTA helped to achieve. In this case is very difficult to measure the impact of those activities as all of them were process oriented and thus were complementary to other more substantive efforts i.e. preparation of the CPS, preparation of a project or implementing a set of policies. Nevertheless, although not indispensable, activities like those supported under this NLTA were particularly effective to facilitate processes, reduce transaction and negotiation costs and mitigate risks, qualitative aspects that ultimately could prove very valuable. Small resources could make a big difference if adequately support other substantive efforts in a flexible manner.

**V. Follow up Questions**

a. If additional DFID-MGPR funds were available, what type of activities would you propose under the LAMIT program?

On the basis of this positive experience I would continue and expand outreaching activities to help promoting policy dialogue and consensus building in countries. Specifically, the support to the fiscal dialogue (*Pacto Fiscal*) in El Salvador would require significant support from multilaterals like the Bank and the possibility to tap on flexible funds could be very helpful.

b. How would you characterize the U.K. DFID’s contributions to the Bank’s work in the LAC Region?
The DFID-MGPR program came helpful to support initiatives for which is usually very difficult to find flexible support. Small grants used to complement other substantive activities could make big and real difference and could facilitate implementation of critical aspects of the Bank’s program. Both the strategy as a whole and specific complex programs require permanent and in-situ support that the Bank is not always able to afford with administrative funds. Therefore, DFID program demonstrated to be an effective complement to leverage support and increase impacts on the ground.