Statement by Girmai Abraham  
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**El Salvador: Country Assistance Strategy**

El Salvador captured the world's attention as a result of a series of devastating natural disasters beginning with Hurricane Mitch in 1998 which were followed by severe droughts in 2000/1 and earthquakes in 2001. The World Bank Group, together with the IDB and other development partners, proved to be a reliable source of support to a country in need. We commend the Bank for the flexibility displayed in emergencies and wish the authorities well in their endeavors to reconstruct the destroyed infrastructure.

The vulnerability induced by disasters should not mask the good macroeconomic performance of El Salvador in the past 10 years. The country has managed inflation well as evidenced by that figure’s steady decline from an average of 11 percent per annum in 1993 -1996 to 3 percent in 1998 and a remarkable -1 percent by the end of 1999. Real GDP growth, which averaged 4.5 percent in the early 1990s, slowed to an average of 3 percent in the latter 1990s. Public sector debt, below 30 percent of GDP, also seem to have been well managed. The recent sovereign placement with a spread of 350 bps over US treasuries demonstrates the markets belief that the country’s debt management is credible.

Notwithstanding the remarkable period of macroeconomic stability, the challenges facing El Salvador are immense yet manageable. We note that poverty reduction in the past ten years improved the lives of the rural poor. Consumption by the urban poor also increased considerably. Part of the success in poverty reduction was driven by remittances from abroad. Remittances still remain strong and have a positive impact on small scale investment. The tax base, however, remains too small. Tax revenues have not grown fast enough to allow the government to substantially increase expenditure on the social sectors. The rural sector, with a disproportionate number of the poor, is highly dependent on coffee exports. Coffee, like other agricultural commodities, is faced with declining prices. The events of September 11 leads us to conclude that commodity price recovery may not be imminent.

Exports in the maquila sector have increased at double digit rates in the past decade. However, this success has been encouraged by unsustainable tax incentives which, according to the WTO, must come to an end by January 2003. The current world economic downturn has the potential for further jeopardizing the trends in export growth. What mitigating measures have the Bank recommended to the authorities regarding this sector? On the macro-financial
developments, what is the staff’s view of bi-monetarism? How realistic is a policy that pegs the colone to the dollar at the exchange rate of C 8.75 per U.S. dollar established in 1993? What have been the benefits of this policy since its introduction in January?

The encouraging progress on poverty reduction achieved during the 90s must be sustained and extended. We therefore agree with the proposed areas of focus for the Bank Group. In the short run, it is essential that the social infrastructure destroyed by earthquakes be reconstructed and rehabilitated as soon as possible. In this regard we endorse the health services extension project submitted together with the CAS document. The reconstruction of the seven hospitals in the earthquake-affected areas will strengthen the provision of health and nutrition services to the poor. Could staff elaborate on the government strategy in this sector? Is access to services equitable in other areas that were not hit by the earthquakes? How strong is the perception that NGOs are better service providers than the government? What measures would be taken to ensure that these reconstructed hospitals are utilized to maximum capacity? In most developing countries, health care is a highly centralized function. In El Salvador’s case, we note that reconstruction will be focused in the North whereas extending access to services to the poor is a country-wide problem. Are there any regional issues regarding health care access? If so, are they being addressed?

We are pleased to note the innovative consultation process followed in formulating this CAS. We are impressed by the degree of trust and transparency inherent in the process. We hope that relations between the Bank and the country will be strengthened as a result. Could staff explain further about the "Options Finder" software? The base-case lending program of about $270 million over the next three years seems very modest. To what extent was it influenced by current portfolio issues?

In conclusion, we commend the comprehensive approach taken by the Bank Group in El Salvador. The presence of the IFC augurs well for private sector development. We believe MIGA’s technical assistance on attracting FDI and good practice strategy guidelines to PRO.ESA will yield results in the medium term. We particularly applaud the decision to continue with advisory and analytical services that the World Bank Group provides.