Board Meeting of March 7, 1997
Statement by Michael Marek

EL SALVADOR - Country Assistance Strategy

1. The transition to peace after 12 years of civil conflict has spurred a major economic turnaround in El Salvador. Progress -- in terms of overall economic growth, macroeconomic management, and structural reform -- has been impressive. At the same time, social indicators -- while evidencing some improvement -- are among the worst in Latin America. It is very clear that the Government of El Salvador (GOES) faces serious challenges in translating the benefits of postwar growth into a better life for the majority of Salvadorans, particularly those in rural areas. While continued stability on the macroeconomic level will be an important factor for El Salvador's future growth, the foundation for its long term stability is the integration of the three million rural Salvadorans into the economic and social fabric of the country. We believe the CAS presents a balanced picture of recent developments in El Salvador, the progress achieved over the last few years, and the magnitude of the task ahead. Indeed, the data on social indicators in the rural areas are very sobering.

2. At the outset, we would like to commend Management and staff for its outreach to both Salvadorean NGOs and grassroots organizations, and to the expatriate business community, and for efforts to engage civil society in the CAS process. The Bank's experience illustrates some of the difficulties of substantively engaging stakeholders. We welcome and encourage the Bank's commitment to maintain a regular dialogue with stakeholders, and hope that best practice lessons will emerge for broader application.

3. We view the Bank's overall strategy to strengthen the sustainability of economic underpinnings of the peace as appropriate. However, we do have some concern on whether the proposed efforts to address rural poverty are commensurate with the extent and nature of the problem. Part of this concerns stems from uncertainties on the likely effectiveness of the Social Investment Fund for Local Development (SIFLD), and the ability of this new entity to avoid the shortcomings as its predecessor, e.g., lack of local community involvement, politicization, and sustainability. We also understand that start-up of the SIFLD role has been slow and uncertain. Timely completion of the Bank's two studies on rural development and rural finance could facilitate a long-term strategy to better integrate the rural sector into the overall economy. However, there will be no substitute for a strong, sustained GOES commitment in this area.
4. We strongly endorse the Bank’s strong focus on the social sectors. We also view the emphasis placed on Gender Strategy to be of major importance. One in five Salvadoran households in rural areas is headed by a woman, and increased economic opportunities for women should be a key aspect of the evolving strategy on rural development.

5. Strengthening financial markets is another important priority. The new pension reform plan is based on the Chilean model, although the financial and security markets are far less developed. The welcome promise of several privatizations in 1997, and the prospect of increased direct and portfolio foreign investment underscore the importance of stock market reform. We encourage the Bank and the IFC to complete as soon as possible the study on Strategic options for Financial Sector Development and to move forward in providing appropriate support as soon as possible. The IFC’s inclusion of El Salvador on its Extended Reach Initiative is very welcome. The success of current efforts to strengthen weak money laundering legislation would also bolster transparency in the financial markets.

6. We concur with risks associated with CAS implementation set out in paragraphs 79 thru 82. Improved fiscal performance is vital, and is a prerequisite to expanded investments in primary health and basic education, and in the basic infrastructure on which poor communities rely. The reform program of the GOES is clearly ambitious and innovative. Many aspects of the modernization and competitiveness programs are among the most advanced in Latin America. While the reforms merit donor support, there remain serious questions regarding their viability. Developing public support remains a major question. Moreover, in some cases, the reforms seem somewhat incongruent with the ground realities, e.g.: no history of strong regulatory institutions, major weaknesses in the public sector administration, and widespread public concern on performance in more basic tasks such as paving roads, providing healthcare, or maintaining law and order.

7. The ability of the GOES’s reform program to produce results will be contingent on giving major priority to other basic reforms that will ultimately underpin the success of modernization. Public security, contract enforcement, tax administration, anti-monopoly efforts, management of key ministries such as public works and customs administration come to mind as examples of “bread and butter” policy issues that will continue to require urgent attention. It is important for the Bank and other donors to encourage GOES concentration on the viability of reforms, and to ensure that the issue of rural poverty -- and the priorities identified in the Bank’s Poverty Assessment -- are at the forefront of the development agenda.

10. As the CAS notes, there are also very serious deficiencies in environmental management and policies. While the IDB and USAID are focusing their efforts on environment, we would urge the World Bank to underscore to local and national leaders the importance of substantive forward progress in this important area. A pro-active Bank stance could be very important given what many perceive as a lack of GOES political will to seriously address environmental problems.

11. In conclusion, we would like to urge that in situations like El Salvador where there is obviously very close Bank coordination, and established division of labor, with a regional MDB, that a representative of the regional MDB be invited to attend and participate in CAS discussions. We believe that such participation could enhance our understanding of how the comparative advantages of each institution correspond to the overall development strategy.