Statement by Todd Crawford  
Date of Meeting: December 4, 2001

**El Salvador -- Country Assistance Strategy and Earthquake Emergency Reconstruction and Health Services Extension Project**

**Summary and Overview**

1. El Salvador’s progress since 1991 has been remarkable in many respects. It has restored macroeconomic and financial stability, implemented the first generation of structural reforms needed to create a dynamic, outward-looking, private sector-led economy, and achieved impressive advances in poverty reduction. The Government’s recent placement of a $354-million bond at a moderate spread over U.S. Treasuries is testament to the authorities’ prudent economic policies.

2. The task now is to deepen the reforms and we wish the Government and people of El Salvador every success in this effort. There are three points we wish to emphasize in that regard. The relate to the need to:

- **Mainstream throughout the Bank Group’s assistance program support to strengthen the climate for private sector investment and job creation.** This is needed in order to increase productivity, secure a higher level of sustainable economic growth, and achieve sustainable poverty reduction.

- **Give greater attention to rural poverty reduction.** Reinforced efforts to build human capital, boost agricultural productivity, and stimulate the creation of non-farm rural employment opportunities are urgently required to accelerate rural poverty reduction.

- **Improve public sector finances.** Increased fiscal revenues, resulting both from private sector-led economic growth and from improved tax administration are required to give the Government the wherewithal to expand the coverage of social services and the social safety net on a sustainable basis.

3. We broadly support the CAS base-case lending program and the proposed non-lending services. We concur that the CAS generally strikes the correct balance between the country’s immediate needs of reconstruction and its longer-term development objectives. We believe, however, that the triggers for the low case and the upper end of the base case should be clarified.
Further, we would urge that the Bank Group make every effort to accelerate completion of the Country Economic Memorandum (CEM), which could help the Government refine its economic growth and poverty reduction strategy going forward.

4. In addition, we approve the Earthquake Emergency Reconstruction and Health Services Extension Project that is before us today.

Private sector development is the key.

5. We wholeheartedly support the Government’s vision, as described in paragraph 22 of the CAS, to develop an open, competitive economy. Such an economy must be built on a foundation of stable macroeconomic policy, a flexible and well-educated work force, efficient and extensive physical infrastructure, a modern public sector, and a sound business climate anchored within a transparent and equitable judicial system. We concur with the comment that Mr. Pineda made in his thoughtful statement that a vigorous private sector is key to achieving the Government’s vision for the economy and people of El Salvador.

6. Paragraph 42 outlines a formidable agenda of second-generation reforms required to achieve this vision. The agenda includes the regulatory reform and investments in human capital and physical and market infrastructure that are needed to overcome obstacles to greater productivity and competitiveness and surmount the lackluster economic growth rates of recent years.

7. The Bank’s highest priority should be to support the Government’s efforts to identify and implement specific policies, programs, and reforms needed to carry forward this agenda for private sector-led growth and poverty reduction. In this regard, we would strongly urge that every effort be made to complete the planned Country Economic Memorandum as soon as possible, as the CEM is the vehicle for helping the Government think through these issues.

8. A vibrant private sector in El Salvador will require a transparent and predictable regulatory and legal environment. As such, we welcome plans to support judicial, legal, and regulatory reform under this CAS. In this same vein, a strong and liquid banking system, underpinned by effective prudential regulation and supervision, is essential to efficient financial intermediation and higher levels of domestic investment and sustained growth. We appreciate the financial sector assessment that was recently conducted by the Bank and Fund. Could staff provide some information about what FSAP follow up is envisioned and how it will be financed?

9. We commend the IFC’s engagement in El Salvador, both through transactions and through its technical assistance to promote SME development. We were also pleased to learn of MIGA’s engagement with PRO.ESA. We encourage MIGA actively to seek clients in El Salvador. We trust that both the IFC and MIGA will leverage the experience they have gained through their transactions in El Salvador by sharing with the Government and their other Bank Group colleagues their impressions of regulatory, administrative, or other reforms that could strengthen the climate for domestic and foreign investment.

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The rural sector urgently requires greater attention.

10. Harking back to a point that we made during the discussion of the 1997 CAS, it is essential to address the needs of the rural sector. Rural-urban migration, while inevitable and even desirable in some measure, is not the entire solution. We appreciate that most of the Bank’s current and proposed lending operations have elements focused on the rural sector. However, as the CAS notes, poverty reduction is still lagging in the rural sector. This demonstrates the need to give this matter even greater attention. We encourage the Bank to consult quickly with the Government regarding its priorities and accelerate its work with IFAD so as to bring the suggested rural economic reactivation loan to the Board expeditiously. We would also encourage the IFC to explore complementary investments directly in enterprises in rural areas or in financial intermediaries that could help promote SME growth and rural non-farm employment opportunities.

11. We welcome the involvement of the Bank in agricultural systems that help conserve biodiversity. We also welcome the CAS’s acknowledgement that natural resource and environmental degradation is affecting agricultural productivity and public health. Could staff provide some quantitative estimates of the importance of these effects? This would facilitate a more informed evaluation of the Bank’s sector investment priorities.

Improved tax administration is crucial to sustainable social services delivery.

12. I want to return to the issue of public sector finances. The Government clearly sees the need to expand the coverage of social services and the social safety net. Higher private sector-led growth is essential to help generate the revenues needed to sustain such an expansion. However, improved administration of existing taxes is also crucial to the Government’s efforts to finance sustainable improvements in access of the poor to social services. The Government deserves credit for the steps it is already taking to strengthen tax administration and for its complementary efforts to reduce electricity and diesel subsidies. We would urge the Government to avail itself of the IMF’s and Bank’s expertise in matters of tax administration and public expenditure management; similarly, we would urge that these institutions respond promptly to any such requests for assistance.

We broadly support the Bank Group’s proposed assistance strategy.

13. We broadly support the thrust of the proposed base-case lending program and non-lending services, but have some questions and comments regarding the lending scenarios, some of the emphases of the lending program, and the proposed non-lending services.

14. Regarding the triggers, we trust that El Salvador’s performance will justify lending at the base-case level. However, we would still appreciate clarification of how specifically the Bank would judge a “deteriorated macroeconomic framework”, which is one of the triggers for the low case. Similarly, could staff clarify how they will judge whether it’s appropriate to move to the high end of the base case?
15. We appreciate the crosscutting, multi-sector approach to gender issues in El Salvador. The education and judicial reform efforts are especially important to help stem the disturbing phenomenon of domestic violence against women.

16. We urge a similar crosscutting approach to HIV/AIDS. The importance of this issue is too quickly dismissed in paragraph 35 of the CAS, given the serious implications of the rising number of reported cases for individual well-being, future productivity and GDP growth, and the public purse. Ministry of Health data show that HIV transmission is rising fastest among adolescent girls, which indicates that the epidemic is close to becoming generalized. As such, we welcome the emphasis on female students under the Secondary Education Project, as this group demonstrates a higher dropout rate, as well as the Bank's plans to support the authorities' national strategy to prevent and detect HIV/AIDS.

17. We appreciate the participatory processes and donor consultations and coordination that underpin this CAS and are pleased that a representative of the IDB is here today to answer questions about coordination between the two institutions. In this regard, we would be grateful for clarification of the IDB’s efforts to help the Government improve financial management and how those efforts relate to the CFAA and CPAR that the World Bank plans.

18. We have a final comment pertaining to information that we think would be useful to see in all CASs. We are concerned that the statistical tables presented in the appendices do not include any measures of human or natural capital levels and trends that influence potential GDP growth and can be tracked over time. If the RMSM-X model does not allow for calculation of human or natural resource capital trends that affect savings, productivity, and growth (for example, HIV/AIDS incidence, loss of forest cover, and soil erosion), they should be supplemented with models that do. In the meantime, CASs could at least include and explain the kinds of measures of genuine savings that the Bank is already calculating for publication in World Development Indicators.