Statement by Roberto García-López  
Date of Meeting: November 29, 2001

**El Salvador: Country Assistance Strategy and Proposed Loan to El Salvador: - Earthquake Emergency Reconstruction and Health Services Extension Project**

We welcome the CAS for El Salvador as a timely and adequate business proposal for the Bank’s engagement in that country. It builds on a remarkable record of reforms and sustained poverty reduction efforts. The fact that in the 1990s extreme poverty was reduced by almost half, net enrollment in primary education increased by almost 10 percent, infant mortality was reduced by about 40 percent, and population with no access to safe water was reduced by half, has to be hailed as an achievement of El Salvador.

The challenge that remains ahead is to sustain these gains and to further advance towards meeting the 2015 International Development Goals. The road ahead presents some difficulties, especially to rebuild physical and social infrastructure devastated by recent earthquakes. While these efforts are deployed, the authorities will have to be careful not to hamper the country’s medium-term poverty reduction agenda. Economic growth, together with poverty reduction and social promotion, will have to be encouraged in an integral manner.

The role of the public sector and the institutional capacity in this endeavor will be crucial to assist in the design and implementation of adequate policies. El Salvador has been able to recover remarkably well from its 12-year civil war, which goes to prove that the indigenous social capital is capable of tackling mayor problems and succeeding in its democratic resolution. This will prove very helpful when looking ahead and trying to continue with the poverty reduction efforts.

The CAS proposes a base-case lending scenario of US$270 million, or about US$90 million per year, during the three years of the CAS. For the low-case scenario, a 60% of the base case is envisaged, or roughly US$55 million a year. The difference between one and the other being the fiscal performance of the Government and its capacity to sustain a more robust investment program and project execution proceeds. It seems odd that such undertakings as the judicial reform or rural community development could be excluded if, as the Bank assumes, the fiscal position of the Government or its institutional capacity decline in a particular year. Certainly by not carrying out the judicial reform in its program, the Bank would not be assisting the country adequately in its endeavor to contribute to a favorable climate for private investment.
The international juncture is one of recession and it will affect for some time countries as El Salvador, but at the same time it must be noted that its public sector has shown resilience in dealing with domestic problems. It is adopting fiscal measures to strengthen its revenues, exports other than coffee have grown substantially and are still growing, the external debt situation is comfortable with the level of exports. Temporary setbacks cannot be used as sufficient reason to fall back into a low-case. On the contrary, taking the medium-term perspective into consideration, the Bank should step up its financial assistance to help authorities consolidate the economic situation.

Perhaps it would be necessary to have a high-case scenario whereby additional efforts on the domestic side could be accompanied by the Bank’s additional resources. In the present world situation, it is important to increase assistance to those countries that have a proven record of reforms and stability, which the Bank cannot afford to see crumbling.

El Salvador’s economy has shown in the past growth rates that sustain the projected annual growth rate of 3.6 for 2000-04. What is needed is a more robust assistance to the private sector in order for the private activity to fuel economic growth. We do not see in the Bank’s strategy a more forceful vision on how to assist the country in further improving the conducive environment for the private sector.

With reference to the project, we fully support the approval of the proposed loan. This project seeks to restore hospital operations and minimize losses in vulnerable populations, with special emphasis on the poverty-stricken Northern Region. The project will not only help improve the general health situation, and in particular that of low-income groups, but will furthermore help resolve the economic disruption caused by the earthquakes.