To: The Board of Executive Directors
From: The Secretary

Inquiries to: Director Jose Carlos Miranda (extension 1002)

Reference: GN-2575(6/10)
Chairman’s Report  
Programming Committee  
Country Strategy with El Salvador (document GN-2575)

1. The Programming Committee met on 13 July to consider a proposed country strategy with El Salvador as contained in document GN-2575.

2. It was noted that the country had entered a new political cycle in 2009 with the first party handover of the presidency in 20 years, and that the Bank had played an important role in the transition, engaging in dialogue with the main political parties. With renewed prospects to overcome the political stalemate of recent years and reach consensus on a vigorous development program, the country nonetheless faces a difficult context, with negative growth resulting largely from the international financial crisis, a fragile system of public finance and a complex set of social issues.

3. Against this backdrop Directors expressed support for the strategy proposed by Management, welcoming in particular the planned emphasis on fiscal reform, the well developed results framework, and the effort to apply recommendations issued by OVE in its evaluation of the previous strategy with El Salvador. They also suggested a number of issues for additional discussion, including:

   • Revenue enhancing measures and reduction of poorly targeted subsidies as part of a medium-term fiscal strategy.
   • Private-sector development through improved coordination between the government and business sector, related institutional strengthening and a more effective regulatory framework.
   • Natural disaster preparedness and mitigation efforts mainstreamed throughout the program and particularly in such sectors as transport and urban development.
   • Measures to reduce violent crime in the country based on a careful diagnostic assessment of problems in this area and their impact on investment.
   • Increased reliance on foreign trade in addition to remittances as a source of foreign exchange, with appropriate tax incentives to encourage trade sector development.
   • Regional integration as a particularly important priority for the Central American economies; a regional natural disaster insurance scheme was suggested for exploration in this regard.
   • Increased use of national procurement and fiduciary systems as well as Country Office strengthening to manage a potentially more dynamic portfolio going forward.

4. During discussion, in my capacity as Chairman, I recommended that the Bank’s Research Department direct more of its focus and resources to fiscal and tax issues in each borrowing country as a particularly critical component of sound macroeconomic policy and, more importantly, as a stepping stone to increase government revenues, which can be used to pursue countercyclical policies when needed.

5. With these observations, as Chairman of the Programming Committee I recommend that the Board approve the proposed Country Strategy with El Salvador as contained in document GN-2575.