WORLD BANK OPERATIONS EVALUATION DEPARTMENT

OED

El Salvador
Post-Conflict Reconstruction

Country Case Study Series

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Preface

Following its creation in 1946, the World Bank's first loan to the government of France was to help rebuild the country after the massive destruction suffered in World War II. Since then, post-conflict reconstruction has been a recurring theme in the Bank's work. Given the rapidly increasing number of post-conflict areas and the enormity and complexity of rebuilding in each case, the Bank is taking a fresh look at how it can best provide assistance to such troubled parts of the globe. One way is take a look at past experiences in dealing with post-conflict reconstruction in an attempt to draw some key lessons for ongoing and future operations in post-conflict areas.

This review of El Salvador is one of a series of field-based country case studies assessing the Bank's recent experiences with post-conflict reconstruction. Other studies in this series include Bosnia and Herzegovina and Uganda.

Why choose Bosnia and Herzegovina, El Salvador, and Uganda for field-based case studies of post-conflict reconstruction? Indeed, the selection of countries for case study was not self-evident, precisely because each complex emergency is unique and because every situation presents a special kind of learning opportunity. A number of considerations went into these choices.

First, in each of these countries the Bank played a significant role in attempting to assist with post-conflict reconstruction. Second, the countries are diverse in the causes of state failure and collapse, as well as the factors that influenced the initiation or resumption of Bank operations. Third, the case study countries are also diverse in terms of region and phase of Bank assistance. For example, Bosnia and Herzegovina represents a relatively new recipient of post-conflict reconstruction assistance, El Salvador is a more mature recipient of such assistance, and Uganda presents a case in which post-conflict reconstruction assistance has been essentially completed.

The field studies began with a review of project documentation and a preliminary series of interviews with relevant Bank staff to identify the main issues affecting recovery in each country. The in-country research involved visits to project sites and interviews with a wide range of respondents, including, for example, representatives from the central bank; the prime minister's office; the ministries of finance, education, health, and reconstruction; donor and United Nations (U.N.) agencies; international and local nongovernment organizations (NGOs); parliament; veterans' associations; and district administrations.

Overview of the El Salvador Case Study

This case study assesses the Bank's experience in assisting post-conflict reconstruction in El Salvador. The Chapultepec Peace Accords of January 1992 formally ended a 12-year civil conflict responsible for about 80,000 deaths, large-scale suffering, and losses to infrastructure and the economy.[1] With the election of the reform-minded Cristiani government in mid-1989, the Bank rapidly expanded its involvement in El Salvador following a period of hiatus during most of the 1980s (with the exception of an Earthquake Reconstruction Loan approved in 1987). By the time of the formal Peace Accords, the Bank had approved a Structural Adjustment Loan (SAL) and a Social Sector Rehabilitation Project (SSRP), convened a first Consultative Group (CG) meeting, and provided assistance for the preparation of the government's National Reconstruction Plan (NRP).

This early assistance was critical to laying a sound macroeconomic foundation for an impressive recovery of the economy during the first half of the 1990s, as well as for mobilizing international economic support. While the Bank was not the largest donor of post-conflict assistance, its leadership of a series of four CG meetings between 1991 and 1995 did make a vital contribution to post-conflict reconstruction and economic recovery. Several high-quality lending operations and nonlending services have also made a significant impact.

However, no effort, with or without donor support, has yet shown any real promise of reversing perhaps the most serious socioeconomic legacy of the conflict: violent crime, or "microinsecurity," of epidemic proportions.

Acknowledgments

This report synthesizes the findings of an assessment of the World Bank's experience with post-conflict reconstruction. The objective of the assessment is to distill lessons for ongoing and future operations from the Bank's experience in providing assistance for post-conflict reconstruction. The outputs of the study include an overview and three country case studies, including this volume. The overview is entitled "The World Bank's Experience with Post-Conflict Reconstruction" (1998).

The reports were prepared by a team led by Alcira Kreimer and comprising John Eriksson, Robert Muscat, Margaret Arnold, and Colin Scott. The following consultants contributed to the country case studies: Ann Elwan, Bosnia and Herzegovina; Jose Marques and Mauricio Silva, El Salvador; and Paul Collier and Zerubabel Ojoo, Uganda.

The report was produced as part of the OEDPK publication series by a team under the direction of Elizabeth Campbell-Pagé. Barbara Balaj provided editorial and writing support for the country cases. Caroline McEuen (editor), Kathy Strauss and Aichin Lim Jones (graphics and layout), Barbara Yale and Diana Qualls (editorial assistants), and Juicy Qureishi-Huq (administrative assistant) comprise the publishing team.

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Abbreviations and Acronyms

ACE	Community Education Association (*Asociación Educativa de la Comunidad*)
ARENA	Republican Alliance (*Alianza Republicana Nacionalista*)
BCR	Central Reserve Bank (*Banco Central de la Reserva*)
BEMP	Basic Education Modernization Project
CAS	Country Assistance Strategy
CEC	Commission for the European Community
CEL	National Electric Power Company (*Comisión Ejecutiva Hidroeléctrica del Río Lempa*)
CEM	Country Economic Memorandum
CG	Consultative Group
CNR	National Registry Center
CPI	Consumer Price Index
DAC	Development Assistance Committee
ECLA	Economic Commission for Latin America
EDUCO	Community Managed Schools Program (*Educación con Participación de la Comunidad*)
ERC	Economic Recovery Credit
ESW	Economic and Sector Work
FIS	Social Investment Fund (*Fondo de Inversión Social*)

FMLN	Farabundo Martí National Liberation Front (*Frente Farabundo Martí de Liberación Nacional*)
FUSADES	Salvadoran Foundation for Economic and Social Development (*Fundación Salvadoreña de Desarrollo Económico y Social*)
GAO	Untited States General Accounting Office
GC	Community Group (*Grupo de la Comunidad)*
GDP	Gross domestic product
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
ICITAP	International Criminal Investigation Training Program
ICR	Implementation Completion Report
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFI	International financial institution
IMF	International Monetary Fund
MINUSAL	United Nations Observer Mission to El Salvador
MOP	Memorandum of the President
NGO	Nongovernmental organization
NRM	National Resistance Movement
NRP	National Reconstruction Plan
OECD	Organization for Economic Cooperation and Development
OED	Operations Evaluation Department
ONUSAL	United Nations Observer Mission to El Salvador
PAR	Performance Audit Report
PCR	Project Completion Report
PRISA	Agricultural Sector Reform and Investment Project (*Proyecto de Reforma y Inversión del Sector Agropecuario*)
PSA	Private Sector Assessment
PSD	Private Sector Development
SAL	Structural Adjustment Loan
SAR	Staff Appraisal Report

SIPRI	Stockholm International Peace Research Institute
SRN	Secretariat for National Reconstruction (*Secretaría de Reconstrucción Nacional*)
SSRP	Social Sector Rehabilitation Project
TAL	Technical Assistance Loan
U.N.	United Nations
UNDP	United Nations Development Program
UNICEF	United Nations Childrens' Fund
USAID	United States Agency for International Development
VAT	Value-added tax
WFP	World Food Program

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Summary and Lessons Learned

From Bretton Woods to the present day, the Bank has taken up the task of post-conflict reconstruction. Some of the first loans the Bank made after its founding helped to rebuild European countries after World War II. During that era, the Bank concentrated on providing physical capital. Today's challenges are quite different. The end of the cold war and the virtual explosion of civil conflicts in the 1990s have tested the ability of the Bank and the entire international community to address the devastation of human and social capital on an unprecedented scale.

Post-Conflict Lending by Region

The most significant increase came in the first half of the 1990s, when the majority of funds went to African countries (mainly Uganda). Of the US$6.2 billion the Bank has lent to post-conflict countries since 1980, 56 percent, or US$3.5 billion, has gone to the Africa Region. The next largest share has gone to the Latin America and Caribbean Region, which received just over 16 percent. The Europe and Central Asia and Middle East and North Africa Regions have received nearly equal shares, about 11 percent each, and the East Asia and Pacific Region received 4.5 percent. The South Asia Region received the smallest portion, just over 1 percent, consisting entirely of the Emergency Reconstruction Loan to Sri Lanka in 1988, following the peace accords.

> Since 1980, the volume of Bank lending to post-conflict countries has increased more than 800 percent, to US$6.2 billion, and has touched every region and economic sector.

Over the years, lending commitments to post-conflict countries have grown as a percentage of the Bank's overall portfolio. Overall lending to post-conflict countries constituted more than 16 percent of the lending commitments of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) for fiscal year 1998. In several Regions, such as Europe and Central Asia and the Middle East and North Africa, lending to post-conflict countries makes up nearly half of the Regional portfolio. In Africa, post-conflict lending makes up close to a third of commitments.

Post-Conflict Lending by Sector

Over the past 20 years, the Bank's post-conflict reconstruction lending projects have covered every sector. Of the US$6.2 billion in lending volume, the largest portion, 32.6 percent, supported multisector projects. Multisector projects include central bank transfers to stabilize the macroeconomic situation, technical assistance loans, and general emergency reconstruction or recovery projects that have several economic and social components designed to provide rapid assistance for the most pressing needs. Of the nearly US$2 billion in multisector lending, more than half was in structural adjustment loans or credits for budget support. The multisector also includes the demining implemented in Bosnia.

Nearly 10 percent of the US$6.2 billion financed agricultural projects, and 9 percent supported transportation projects (mainly highway reconstruction). The urban development sector received 8.5 percent of post-conflict reconstruction assistance. Population, health, and nutrition received 7.4 percent of the lending amount, and electric power and other energy received 6.6 percent. Other sectors received smaller amounts of support—education, 4.2 percent; water supply and sanitation, 4.2 percent; and so on.

Need for Evaluation

In view of both the high risk and attendant potential returns entailed in an expanded role for the Bank in post-conflict reconstruction, the Bank's Board of Executive Directors called on the Operations Evaluation Department (OED) to assess recent and ongoing Bank operations in such areas. The objective of this assessment is to distill lessons for ongoing and future operations in post-conflict reconstruction. Specifically, it aims to enhance the institution's ability to respond more effectively and efficiently to the needs of societies rebuilding after conflict.

Case Study Selection

Three cases were chosen for field study: Bosnia and Herzegovina, El Salvador, and Uganda. The selection of countries for field case study was not self-evident precisely because each complex emergency is unique and because every situation presents a special kind of learning opportunity. A number of considerations went into these choices.

First, in each of these countries the Bank played a significant role in attempting to assist with post-conflict reconstruction. Second, the countries are diverse in terms of the causes of state failure and collapse, as well as the factors that influenced the initiation or resumption of Bank operations. Third, the case study countries are also diverse in terms of region and phase of Bank assistance. For example, Bosnia and Herzegovina represents a relatively new recipient of post-conflict reconstruction assistance; El Salvador is a more mature recipient of such assistance, and Uganda presents a case in which post-conflict reconstruction assistance has been essentially completed.

The Bank's Post-Conflict Response Mechanisms

Every post-conflict country is unique, and no single formula can respond to all reconstruction needs. The Bank has used a broad array of mechanisms to support the transition to peace and the resumption of economic and social development. Its lending operations have consisted of macroeconomic and sectoral adjustment reforms, direct investment, and technical assistance in support of reconstruction. Nonlending services have included damage and needs assessments, economic and sector work (ESW), Country Assistance Strategies (CAS), and aid coordination.

Key Issues Analyzed

In the case studies of Bosnia and Herzegovina, El Salvador, and Uganda, six key issues were analyzed, including the Bank's: main strengths or comparative advantages; partnerships with other donors, international organizations, and nongovernmental organizations (NGOs); role in reconstruction strategy and damage and needs assessments; role in rebuilding the economy and institutions of governance; internal management of resources and processes; and implications for monitoring and evaluation.

Main Strengths and Comparative Advantages: Stabilizing and Rebuilding the Economy

Supporting Macroeconomic Stabilization

Supporting the achievement of macroeconomic stabilization is an area of comparative advantage for the Bank and should be one of its highest priorities in post-conflict situations. Moving to macroeconomic stability as soon as possible in a post-conflict setting is crucial to economic recovery.

The Bank's performance in supporting fiscal and other structural economic reforms, such as privatization and tax policy, has been mixed. Thus, the pursuit of economic reforms should continue incrementally, taking into account the country's historical and current policy and institutional enabling environment.

The case studies confirmed that on the grounds of relevance, efficacy, and efficiency, stabilizing the economy is the area of strongest Bank performance in post-conflict reconstruction.

Rebuilding Physical Infrastructure

The Bank's assistance for rebuilding physical infrastructure, including the policy and institutional aspects, has been another strong area of performance. The areas typically most important to facilitating recovery are roads, transportation, power, telecommunications, basic housing, and water and sanitation.

Bosnia and Uganda received comprehensive reconstruction support from the Bank. In Bosnia and Herzegovina, the Bank helped start the reconstruction effort in 1996, without waiting for financial normalization and membership in the Bank. Sixteen emergency projects for the country addressed all major infrastructure and social sectors. They also incorporated a focus on employment generation and support for institutional development.

The Bank's involvement in Uganda's reconstruction was particularly comprehensive. Since the National Resistance Movement (NRM) government took power in January 1986, the Bank has coordinated closely with international donors to support the country's reconstruction effort. In the first five year after the conflict (1987–92), the Bank supported approximately 25 lending operations amounting to more than US$1 billion. It also provided financing for an Economic Recovery Credit (ERC) and a series of sector investment and reform programs (agriculture, education, health, railways, telecommunications) aimed at rehabilitating key economic and social infrastructure affected by the war.

In El Salvador, several high-quality Bank lending operations and nonlending services made significant contributions to post-conflict reconstruction and economic recovery.

Supporting Basic Production Sectors

The Bank's approach to assisting basic production sectors, such as agriculture and industry, has been for the most part indirect, concentrating on policy and institutional enabling environments and on infrastructure. Operations intended to strengthen public sector entities in agriculture in El Salvador encountered protracted problems in attempting to work with weak, inefficient, or rigid bureaucracies. This led to the canceling or restructuring of operations and to a search for alternative approaches to such functions as research, extension, and service and input delivery, relying more on the private sector and NGOs. The performance of operations that have assisted intermediary organizations in support of microenterprise and other participatory local development efforts has been mixed. The record has been relatively satisfactory in Bosnia and Herzegovina, and less satisfactory in Uganda.

Demining

Demining is unique to post-conflict situations and essential for rehabilitation and recovery. Although there are strong economic and humanitarian reasons for demining, the main lesson learned from this assessment is that Bank involvement should focus primarily on indirect, nonclearance activities such as coordination, information and mine awareness, training, and institution building.

Partnerships with Other Donors, International Organizations, and NGOs

Consultative Group Meeting Benefits

The Bank's use of consultative groups has been particularly effective for mobilizing aid resources, including facilitating the clearing of arrears (as in Bosnia), seeking a coordinated approach to macroeconomic issues, and providing information on needs and assistance flows. Some of the benefits perceived by aid recipients of a Bank role in aid coordination included the quality of its analytical and advisory services, its unique relationship with the International Monetary Fund (IMF), its credibility in the eyes of the rest of the donor community, and its potential to mobilize funds from other sources.

It helped enormously to have the Bank's leadership role clearly defined and mandated by key members of the international community, as well as strongly backed by top Bank management, as in the case of Bosnia and Herzegovina after the Dayton Accords. Even in the absence of such a designation, it is important to have a clear request from the government early on, as in El Salvador. It was also valuable for the government and the main donors to achieve a consensus on a policy framework for sustainable recovery and reconstruction, as in Bosnia and Herzegovina and Uganda. In El Salva-

> Early leadership or participation in damage and needs assessments in post-conflict countries has facilitated the Bank's subsequent involvement in developing reconstruction strategies and in aid coordination.

dor, holding a CG meeting *before* the peace accords were signed contributed to the effectiveness of coordination.

Coordination in Undertaking Damage and Needs Assessments

One area where a coordinated, joint approach among donors was particularly desirable was in undertaking damage and needs assessments, as illustrated by the Bosnia and Herzegovina experience. A joint effort in this area is not only more efficient but can also help set the stage for effective cooperation and coordination between donors and governments when implementing post-conflict reconstruction initiatives. Assistance for preparing a national reconstruction plan should also be coordinated to avoid the imposition of unnecessary burdens on the government.

The resource mobilization function of aid coordination may lead to the cofinancing of operations. This is particularly desirable for general program assistance for balance of payments and budget support, for which conditions and tranches must be synchronized. However, the Bank had difficulty in mobilizing adequate cofinancing for budget support in Bosnia and Herzegovina and El Salvador. Some donors were ambivalent toward the governments, because of concern either about the depth of their commitment to peace accords or about their accountability and legitimacy.

In-Country and Sectoral Coordination

Another challenging aspect of coordination for the Bank has been at the in-country and sectoral levels. Misunderstandings and differences can arise with other donors that have substantial resources, those that have had a long-standing coordination role, or those that have both. The case of Bosnia and Herzegovina demonstrates the importance of partnerships in the reconstruction process. The sector task forces, for example, were credited with success in information-sharing within sectors and with some success in avoiding contradiction and overlap among donors.

Coordination with NGOs

The Bank's coordination with NGOs, both local and international, and its relationship with civil society in general are also important. A strong resident mission with an NGO liaison officer in Bosnia and Herzegovina, for example, facilitated these relationships. The Bank is seen as an effective bridge between the government and NGOs there. The Bank's rather rough but improving relationship with Salvadoran NGOs could arguably have been more harmonious sooner had there been a resident mission.

Despite the presence of a resident mission in Uganda, the Bank has been criticized by NGOs and some U.N. sources for its coordination and partnership role there. Some felt that the Bank's leadership had focused the development community on macroeconomic reforms at the expense of poverty alleviation programs. In addition, the Bank was criticized for employing a "standard economic model approach" to coordination rather than adopting a special post-conflict approach. NGOs also felt that the rhetoric of partnership and participation "was moving faster than reality."

> Partnerships are key to effective aid coordination. It is critical to establish at the outset of the recovery process what each donor will do.

Rebuilding Human, Social, and Cultural Capital

Human Capital

Investment in human capital, including education and health spending, is an important component of post-conflict work. Violent conflict can decimate the human resources of a country as people are killed, maimed, or displaced in large numbers. Human capital services are typically the first to be disrupted by conflict. Education, health, and community services stop, bringing the realization of human potential to a halt. Schools, hospitals, clinics, and community centers are destroyed, as is the government's capacity to administer services. Conflict also creates newly vulnerable groups, such as the unemployed, ex-combatants, households headed by women, children, and the disabled, who are legitimate beneficiaries of reconstruction aid for socioeconomic as much as for humanitarian reasons.

Human capital or social sector work was not generally a priority in the Bank's post-conflict projects or in its ESW, both of which concentrated initially on macroeconomic, sector, and infrastructure work. El Salvador and Bosnia and Herzegovina were exceptions, with the latter portfolio containing an early and balanced inclusion of social sector work. In Bosnia, four of the sixteen projects contained social sector components. Uganda operations produced unsatisfactory results, notwithstanding some effort to prioritize health, education, and economic support for the rural poor and vulnerable groups.

> The restoration and development of human capital in the post-conflict phase is essential to establishing a base for economic rebuilding.

The El Salvador Basic Education Modernization Project was built on a Bank-supported Community Managed Schools Program (EDUCO) pilot project and employed a community-managed approach, initiated during the conflict by the communities themselves. The participatory nature of the El Salvador program contributed to consensus building and the sustainability of the peace process. Strong government and Bank commitment have also been important for performance and the achievement of objectives.

Social Capital

Inherent in violent civil conflict is the destruction of social capital, particularly institutions of governance and civil society and such basic attitudes and behaviors as trust and participation. While the severity of this problem in post-conflict countries is increasingly recognized, neither the Bank nor any other international donor has an obvious comparative advantage in this area. Analyses undertaken by the Bank and others have identified some key components of good governance and vigorous civil society that need to be addressed. These components include transparency, accountability, the rule of law, and the professions. Several recent Bank-supported pilots (as in Bosnia and Herzegovina), and World Development Institute efforts (as in Uganda) show promise in these areas.

> Reconstruction efforts must consider the possible productive difficulties women face in post-conflict situations (such as lack of labor at critical times in the agricultural season), since in many post-conflict countries a third or more of the working-age men have been killed and women are the productive basis for restarting the economy.

The Role of Women

The role of women in rebuilding social capital should also be examined and capitalized on. Often considered a "vulnerable group" in post-conflict settings, women have potential as strong community leaders who can facilitate the rebuilding of social capital and may be overlooked.

It is only in Bosnia and Herzegovina that the Bank has made a specific operational effort to address the particular needs of women.

Demobilizing Ex-Combatants

The related activities of the demobilization, reinsertion, and reintegration of ex-combatants into the civilian economy and society can be important to economic recovery and sustained peace. Bank-supported efforts in this area expanded in the 1990s, and the Bank has played a leadership role through the analysis of its experience in Africa. The experience of the Bank and other donors has generated several lessons, as well as some unresolved issues. For example, when the parties to the peace accords are not fully committed, one side or the other can manipulate the process. An approach narrowly targeted on ex-combatants, as opposed to an area or countrywide approach, can create resentment among local populations.

Demobilization can also sometimes be premature, particularly where a continuing threat to national security exists, as may have been the case in Uganda. The Uganda experience also demonstrates that the availability of land is an important determinant of success in the reinsertion and reintegration of ex-combatants.

Land is not a guarantee of success, however, as illustrated by El Salvador, where a substantial number of ex-combatants who have been provided land under the accord-mandated Land Transfer Program abandoned their land for a variety of reasons, including poor land quality, lack of supporting services and credit, and lack of aptitude and interest.

The Bank has acquired some expertise in public sector downsizing programs that can be applied to demobilization efforts. Training schemes have had a mixed record in both areas.

Cultural Capital

What is the justification for assisting in the protection and conservation of cultural heritage in situations of complex emergencies? Applying scarce resources to conserving cultural heritage in a post-conflict situation may seem frivolous at first glance. However, cultural heritage has the power to inspire hope and remind people of their creativity. Its destruction is a decisive way to assert primacy and control and can become a symbol of the brutality and insanity of war. So sensitive are cultural heritage sites that they can become flashpoints in ethnic and civil conflicts, as in the bombing of Bosnia and Herzegovina's Mostar Bridge.

> In attempting to reestablish civil society in the face of ethnic rivalries, protecting cultural heritage is one of the tasks requiring attention in any assistance strategy.

Although the Bank has carried out a number of projects with cultural heritage conservation components, it has little experience doing so in post-conflict situations.

The Bank's Institutional Arrangements

The case studies reveal the great importance of management decisions regarding the staffing and structuring of post-conflict country teams and the programming, design, and implementation of operations. The country director must have a mandate to give the country substantial if not full-time attention. Resident representatives need sufficient authority to make a wide range of programming and implementation decisions in the field.

Early post-conflict situations require timely and flexible programming, design, and implementation. From the initial base of a well-prepared damage and needs assessment, the Bank should refine its strategy over the few years that follow through a series of workshops and policy notes. A full CAS can be prepared when time and resources permit.

Despite the high up-front costs, well-staffed resident missions are a precondition for successful Bank intervention in post-conflict situations.

Expeditious preparation, piloting and bridging funds, and loan instruments should be resourced at sufficient levels to enable the Bank to be effective earlier in post-conflict situations. Mechanisms for rapid procurement and disbursement should be devised for post-conflict situations, consistent with sound practice.

Implications for Monitoring and Evaluation

The effective implementation of post-conflict operations requires intensive monitoring, and the Bank must be prepared to allocate sufficient administrative budget resources for this task. Monitoring efforts should also draw on external expertise about a post-conflict country and make better use of ESW, which should include longitudinal household and community studies. Considering the need for completion information in often highly volatile post-conflict settings, the Bank should sharply reduce the interval between project closing and completion reporting, with appropriate streamlining of the process.

Summary of Main Findings of Individual Post-Conflict Case Studies

Bosnia and Herzegovina

Early, Comprehensive, and Inclusive Approach

The Bank's response to post-conflict needs in Bosnia and Herzegovina was early and comprehensive. Its role in reconstruction and economic recovery is widely perceived to have been successful by the country's authorities, other donors, NGOs, and beneficiaries. The OED team agreed with this assessment. The Bank's nonlending activities are appreciated, including providing a framework for reconstruction and guidance to donors. There is widespread recognition that Bank-supported projects were implemented quickly.

Elements of Success

Other elements of success include a fairly wide dispersion of benefits, both geographically and to a broad range of beneficiaries; involvement of stakeholders; an early and balanced inclusion of the social sector projects in order to rebuild human capital; and a contribution to local implementation capacity. The country's authorities particularly appreciated the sense of ownership afforded them by Bank projects.

Ability to Move Quickly

The peace implementation agenda dictated a compressed timetable for launching the reconstruction program. The Bank was able to adhere to this timetable for a number of reasons: the availability of planning resources, support from the Dutch Executive Director, strong and visible support from the Bank's President, its role in coordinating the planning work, coordination with other actors, and superb staff quality and dedication.

Highly Qualified and Dedicated Staff

In addition to speed, the special attention given to the program within the Bank contributed to the overall quality of the program as well. A very skilled country director was appointed solely for Bosnia and Herzegovina. Her commitment to the process, attention to speed, and quality of work were important in meeting the compressed timetable for project processing. The resident representative also played an important role in the process. His ability to deal with differing perspectives and work with all involved parties in the resolution of issues were very much appreciated by the government, donors, and other agencies.

Successful Project Implementation and Dispersion of Benefits

The OED team found that the benefits of Bank-assisted projects to date are being felt throughout the federation and are increasingly reaching Republika Srpska. The range of benefits has been delivered quickly to a diverse set of beneficiaries while involving stakeholders and building up local implementation capacity. Several factors contributed to success in the implementation phase, including early establishment of a resident mission, streamlined project process and procurement procedures, sector diversification, pilot projects and project preparation, local ownership, and widespread participation.

Economic Management in Peace Agreements

The provisions for fiscal strategy built into the Dayton Accords are of particular importance for the reconstruction work of donors, especially for the Bank. The Bosnia and Herzegovina experience demonstrates the importance of incorporating into a peace accord, to the extent possible, economic management provisions that are more likely to enhance than obstruct the economic recovery process. Despite Dayton's built-in obstacles to effective economic governance and the continuing political tensions, the first year and a half saw substantial economic recovery. In this context, the Bank has also played a central role in the mobilization and application of external resources critical to this recovery.

El Salvador

Overview

The Bank's assistance to El Salvador focused mainly on macroeconomic reform but also included projects addressing the health and education sectors to improve the country's poor social indicators. Bank assistance was critical to laying a sound macroeconomic foundation for an impressive economic recovery during the first half of the 1990s, as well as mobilizing international economic support. While the Bank lagged behind several other donors in the volume of its post-conflict assistance, its leadership of a series of four CG meetings between 1991 and 1995 made a vital contribution to post-conflict reconstruction and economic recovery. Several high-quality lending operations and nonlending services also made significant contributions. However, no effort, with or without donor support, has yet shown any real promise for reversing perhaps the most serious socioeconomic legacy of the conflict: violent crime, or "microinsecurity," of epidemic proportions.

Reengagement before the End of the Conflict

By establishing effective working relationships with the government a couple of years before the Peace Accords, the Bank was able to provide timely macroeconomic assistance and coordination support to El Salvador's reconstruction program. The timing of the Bank's re-entry in El Salvador was propitious, although not entirely intentional. It is hard to say whether, in the absence of the earthquake disaster, the pre-Peace Accords relationships between the government, the private think-tank Salvadoran Foundation for Economic and Social Development (FUSADES), and the Bank would have developed as expeditiously and productively as they did.

Lending Operations

Early operations, including the two SALs and the SSRP, were well-timed. It is also clear that the Bank pursued comparative advantages in policy and institutional reform in its programming.

The Success of Post-Conflict Education Lending

In the social sectors, the Bank seized a window of opportunity in supporting EDUCO, the community self-managed education initiative of the government. This expanding initiative promises to correct and reverse some basic deficiencies in the pre-conflict educational system of El Salvador. The EDUCO experience provides a good example of post-conflict support being more than just reconstruction but also entailing a redirection of development. However, the Bank's experience providing support to the health sector in El Salvador during the early post-war years has been mixed and has not yet led to a full follow-on project.

Good Aid Coordination

The donor coordination role played by the Bank just before the Peace Accords and during the first few years of post-conflict reconstruction was indispensable. The holding of a CG meeting before the Peace Accords were signed and the commitment of experienced and capable Bank leadership to the process contributed significantly to the effectiveness of coordination. It was also important that the government gave priority to donor coordination and endorsed the Bank's supportive role.

Effective Bank Country Team

A high degree of capability, experience, and continuity combined to make for an effective Bank Country Team in the crucial years just before and after the El Salvador Peace Accords. This team made a critical contribution to the Bank's performance in a tense environment. Views on establishing a resident mission are mixed, with some believing it unnecessary, while others favor such a presence to enhance the Bank's image and relations with civil society and other donors.

Uganda

Comprehensive Involvement and Main Successes

Bank involvement in the reconstruction efforts in Uganda have been particularly comprehensive. In the first five years after the conflict (1987–92), the Bank supported approximately 25 lending operations amounting to more than US$1 billion and closely coordinated with international donors. The Bank's role was key in strengthening the Ministry of Finance and the Central Bank, removing the monopoly of the Coffee Board, assisting in sugar rehabilitation, and rebuilding roads.

Program Shortcomings

Despite good performance in reforming and rebuilding the economy, there have been several respects in which Bank involvement could have been improved: insufficient attention to consensus building; excessive use of conditionalities; and, most important, a seriously dysfunctional emphasis on raising taxation. The Bank did not always fulfill its potential comparative advantage, for example, in the power sector, a key element in recovery. Nor did it fully convert its coordination role into creating an overall strategy for reconstruction or a sector-by-sector plan.

Social Sector Shortfalls

The Bank's performance was relatively poor in the social sectors, particularly in strengthening health and education institutions. Investment in the social sectors was often premature, implemented through weak ministries, and with inadequate forethought to the nature of the services the Bank was trying to support. The post-conflict period required major health sector reforms, which fell short of needs. Education investment was equally disappointing, with only an estimated 37 percent of funds reaching schools. There was too much dependence on the existing bureaucracy, and not enough use was made of NGOs.

Bank Processes and Institutional Arrangements

Regarding Bank processes and institutional arrangements, project design did not fully reflect the need in Uganda's unsettled institutional environment for a flexible, process-oriented design. This was particularly evident in the social sectors, where education and health ministries were too weak to accommodate spending, and supervening events such as decentralization and renewed conflict changed priorities. Changes in key resident mission staff, task managers, and government staff were inevitably disruptive at times. Bank staff were not generally familiar with working in conflict countries or with the international relief and rehabilitation system. Staff resources and time were concentrated in Kampala, often with little understanding or contact with international and local NGOs.

Differing Timetables for Post-Conflict Recovery

A final shortcoming of Bank projects was that, where they were not sequential, many were too short to address the projected length of recovery. There are at least two different timetables in post-war recovery, well-manifested in Uganda. The first is a real-time duration of the recovery process, which typically requires at least two decades of sustained effort, with the risk of war a recurrent phenomenon. The second timetable is set by donor considerations, which may be guided by different objectives and manifests itself through programs that do not necessarily take into consideration the very long recovery process. The government has to observe both timetables, weighing the political expediencies of short-term measures to provide security and boost confidence with the needs for longer-term recovery.

An underlying cause of the civil conflict in El Salvador stems from the inequitable social and economic structures developed during colonial rule-specifically, the creation of a coffee elite that controlled most of the country's land area and exploited the cheap wage labor of the rural population.[2] Despite three decades of overall economic growth preceding the conflict, the socioeconomic status of the majority of the primarily rural population remained very low. The conflict resulted in about 80,000 deaths, thousands more wounded and disabled, a half-million displaced, and the flight of roughly a million Salvadorans to the United States. The transition to peace culminated in the 1992 Peace Accords, whose reforms included narrowing the scope of the military to national defense, establishing a National Civilian Police, reforming the electoral and judicial systems, and a Land Transfer Program for ex-combatants and supporters of the leftist opposition. By the end of 1996, most of the major elements of the Accords had been implemented. Current challenges facing El Salvador are linked to problems originating in the roots of the conflict, including how to increase access to opportunities and resources for more of the population, how to make headway on the pervasive problem of microinsecurity, and how to broaden the dialogue on development issues across a wider range of elements of civil society.

2

Evolution of the Conflict

Pre-Conflict

El Salvador's civil conflict is rooted in the social and economic structures that developed during colonial rule and since independence in 1821. The inequitable nature of these structures was reinforced by the coffee-based agricultural export economy that developed in the late 1800s and early 1900s. A series of legal and extralegal actions abolished the traditional *ejido*, or community farmlands. In their place, a new system was created in which the so-called *coffee elite*, controlling more than 40 percent of the country's land area, depended on cheap seasonal wage labor supplied by the majority of the rural population, which lived on subsistence plots on marginal lands (*minifundios*). A rural police force and rural judges were set up to ensure and control the labor supply. The economic and political power of the coffee elite grew with coffee's increasing economic domination, which reached 96 percent of the value of exports in 1931.

Repression and rising unemployment set the stage for the *Matanza* peasant insurrection of 1932 in which an estimated 10,000 to 30,000 people lost their lives. The military quashed the rebellion, and emerged from the conflict as a new power that would control the government for most of the next half-century in return for protecting the oligarchy's interests.[3]

The three decades preceding the civil conflict witnessed significant overall economic growth in El Salvador, stimulated by favorable export markets, import-substitution protectionist policies, and financing from the elite. Consequences of this growth included the emergence of an urban middle class, expansion of the commerce and service sectors, growth of labor organizations, and some broadening of the political spectrum. However, the socioeconomic status of the majority of the primarily rural population remained at a low level. The 1971 census reported an infant mortality rate of 115 per thousand live-births and a rural illiteracy rate of 50 percent among those aged 15 to 19. These indicators ranked among the lowest in Latin America. Despite these conditions, successive military-dominated governments demonstrated scant will or capacity to address them.

Facing poverty and land shortages, hundreds of thousands of rural Salvadorans emigrated to Honduras in the 1950s and 1960s. In 1969 they made up an estimated 15 to 20 percent of the total work force in Honduras. With agrarian reform considered a taboo subject since the insurrection of 1932, migration to Honduras had served as an "escape valve." The Molina government (1973–77) broached the issue of agrarian reform but later retreated because of opposition from the large landowner associations.

A series of confrontations between peasant and organized labor groups and the government led to increasingly repressive government responses over the decade. A coup in October 1979 by a reformist junta was unable to halt the increasing polarization. The Christian Democrat government that followed promulgated a sweeping agrarian reform, providing for the nationalization of large estates in March 1980. At the same time, pushed by the state security apparatus and rightist paramilitary organizations, the government escalated the repression of opposition groups.[4] By the end of the year, virtually all legal avenues for peaceful opposition to the government had been closed, and the military offensive launched in January 1981 by the FMLN (Farabundo Martí National Liberation Front), representing a convergence of leftist forces, marked the "formal" start of the conflict.

The Course of the Conflict

The civil conflict resulted in about 80,000 deaths and many more thousands of wounded, disabled, and orphaned. A half-million people were displaced internally or to neighboring countries, and roughly a million Salvadorans fled to the United States. Damage to infrastructure was estimated to have a replacement cost of US$1.6 billion. The significance of these figures becomes apparent when compared with the estimated population of just over 5 million and the size of the economy in 1990, with a gross domestic product (GDP) of just over US$5 billion. The added impact of the October 1986 San Salvador earthquake—1,200 killed, 300,000 injured and homeless, and a damage replacement cost of US$1.2 billion—contributed to the human and economic shock of the conflict.

GDP trends reflect the impact of deteriorating economic conditions in Central America, aggravated by the conflict. Figure 2.1 shows actual changes and short-term GDP trend lines over three periods: (a) the decade before the conflict, 1968–78; (b) the 12-year period when conflict affected the economy significantly, 1978–90; and (c) the post-conflict period of 1990–96.[5]

The consistent year-to-year growth of the economy, resulting in a trend rate of 4.3 percent during the pre-conflict period, was interrupted in 1979. Absolute reductions in GDP continued until 1982, when a level more than 28 percent below the 1978 GDP was recorded. GDP resumed modest growth in 1983, but it was not enough to recover to pre-conflict levels by the end of the decade. On balance, the GDP trend during 1978–90 was negative, at –1.4 percent a year. Only by 1992 did GDP finally approach its pre-conflict 1978 peak. The relatively rapid growth of the 1990–95 period resulted in a short-term trend rate of 6.3 percent growth. By 1995 the economy had reached a level of GDP growth that was about 12 percent higher than the 1978 pre-conflict peak.

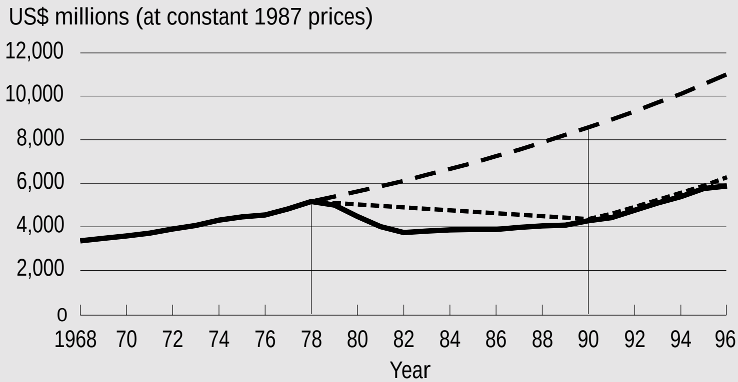
Economic Opportunity Cost of the Conflict

The comparison with 1978 tells only part of the story. It does not reveal the *opportunity cost* of the conflict. One crude way of illustrating this is to assume that in the absence of conflict, the economy would have continued to grow at its 1968–78 trend rate of 4.3 percent (see figure 2.1). Had GDP continued at this rate, it would have been almost double the actual level recorded in 1995. If, however, GDP growth were to continue from 1990–95 at 6.3 percent a year, it would take more than 35 years for the level of GDP to catch up to the level produced by the hypothetical continuation of a 4.3 percent growth rate projected from 1978 onward.

> The conflict was a significant factor contributing to more than a decade of stagnation in the Salvadoran economy. It also had a substantial opportunity cost in forgone economic growth.

There are, of course, several flaws behind such simplistic projections. First, even in the absence of conflict, the Salvadoran economy would not have sustained a 4.3 percent growth rate in the 1980s. During this time, there was a sharp deterioration in its terms of trade and distortionary and interventionist economic policies, imposed partly in response to external shocks. A continuation of the recent 6.3 percent growth trend is also not very likely. Preliminary official data indicate that real GDP growth slowed to 2.5 percent in 1996, which implies a 1990–96 average annual growth rate of about 5.7 percent. Notwithstanding these qualifications, the basic conclusion remains valid.

Figure 2.1: El Salvador GDP Trends



Projected GDP had exponential annual growth of 4.3 percent from 1968 onward.
Actual GDP (at constant 1987 prices); 1996 GDP estimated.
Annual GDP trend line: 1978- 90, - 1.4 percent; 1990- 95, 6.3 percent.

Source: World Bank (1997) database.

In response to external shocks such as import cost inflation and export price deterioration—and the escalating internal conflict and attendant demands of the military budget—the economic policies of successive Salvadoran governments during the conflict swung sharply between fiscal expansion and austerity.

The first half of the decade was also marked by the nationalization of such key activities as coffee marketing and the banking sector. A range of administrative controls was also imposed, including nonquantitative import barriers and domestic wage and price controls.[6] Each such attempt by the government to rectify the situation triggered a perverse private sector reaction, such as massive outflows of private capital, that made matters worse. The impact on overall GDP was felt in all sectors, with industry and construction registering the sharpest declines over a three-year period (1979–82), at 34 and 44 percent, respectively. During the same period, agriculture also declined, but at 12.7 percent, less than the overall GDP decline. This undoubtedly reflected a shift from commercial to subsistence agriculture. Private investment, always sensitive to adverse shifts in the business-enabling environment, registered the steepest decline, with a fall of 90 percent from 1979 to 1981.

External Economic Influences

The decade of conflict also witnessed the burgeoning growth of two other external economic influences with major implications for the Salvadoran economy: (a) U.S. bilateral economic assistance, channeled through the U.S. Agency for International Development (USAID), and (b) private remittances from Salvadoran émigrés and refugees living abroad, particularly those in the United States. Assistance channeled through USAID grew rapidly in the mid-1980s to a 1987 peak of US$469 million, a sum equivalent to two-thirds of total public sector expenditures by the government of El Salvador for that year. Recorded private remittances grew from US$45 million, or less than 1 percent of GDP in 1979, to US$324 million, or almost 8 percent of GDP in 1990. The growth of remittances in relation to commodity exports was even more dramatic, from roughly 5 percent in 1979 to more than 50 percent in 1990, reflecting both the decline in the value of exports and the rise in remittances.[7]

The combination of American assistance and expatriate remittances during the last half of the 1980s permitted some resumption of economic growth in spite of the conflict. But the impact of that growth was very uneven. While the lack of reliable data does not permit precise estimates of the extent and changes in poverty, it is very likely that poverty increased substantially during the 1980s.[8] Average real per capita incomes are estimated to have declined by more than 15 percent between 1981 and 1990. The real minimum wage also declined by about 50 percent, while the real minimum agricultural wage declined by almost 70 percent between 1980 and 1988.[9]

Shift in Government Expenditures

Public expenditure data suggest that those in need were receiving much less in the way of public goods and services during the conflict period than previously. Overall government expenditures fell sharply over the decade, from about 21 percent of GDP during 1980–82 to about 14 percent in 1988–90. At the same time, defense spending increased from around 10 percent of the government budget at the beginning of the decade to an average of 27 percent during the last five years of the decade. Meanwhile, education and health spending together declined from about 30 percent of the budget in the 1970s to 20 percent in 1985; from 1986 to 1990 it varied between 24 and 25 percent.[10]

The Transition to Peace, 1990- 92

The transition to peace began with the election of Alfredo Cristiani as President and of his party, the Republican Alliance (ARENA), to an ARENA majority in the National Assembly in June 1989. The Cristiani administration was committed to economic reform and peace. Serious discussions with the Bank about support for economic reform commenced almost immediately. Moves toward peace began in 1989–90 and were accelerated by the penetration of San Salvador by the FMLN and the assassination of six Jesuit priests by the military in November 1989. Peace negotiations were by no means smooth. They entailed considerable pressure and involvement from the international community, particularly the work of the U.N. Secretary-General and his top advisers, to bring the parties together and to keep them at the negotiating table.

The Peace Accords

Several key agreements in 1991 culminated in the historic Peace Accords signed in Chapultepec, Mexico, on January 16, 1992. The Accords dealt with political and public security issues, as well as socioeconomic concerns. The main public security and political reforms included narrowing the scope of the military to national defense and placing it under civilian control; abolishing the Treasury Police and National Guard; establishing a National Civilian Police and training academy; and reforming the electoral and judicial systems, including establishing a National Counsel for the Defense of Human Rights.

The key socioeconomic measures of the Peace Accords included a Land Transfer Program for ex-combatants and civilian supporters of the FMLN, an extension of credit for agriculture and small business, and measures to alleviate the costs of structural adjustment. The NRP also intended to rehabilitate former conflict zones and facilitate the reincorporation of FMLN members into civilian life.

> Reconstruction planning proceeded alongside the peace negotiations, ensuring that donors could be mobilized at a critical historical juncture, thereby speeding the process of aid mobilization for the National Reconstruction Plan.

The public security reforms were spelled out in greater detail than the socioeconomic measures. This was reportedly because of a decision by the FMLN to give priority to democratic political reforms, government resistance to any discussion of its economic policy, and a reluctance to get involved in detailed discussions of costs that might bog down the negotiations.[11]

The First Phase of Peace, 1992- 95

The Bank, along with USAID, the Inter-American Development Bank (IADB), and the United Nations Development Program (UNDP) helped the government prepare a detailed NRP *in parallel* with the peace negotiations in late 1991 and early 1992. These were conducted in preparation for a second CG meeting to be held in March 1992.

Monitoring the implementation of the Peace Accords was initially undertaken by a U.N. observer team, the United Nations Observer mission to El Salvador (ONUSAL), subsequently extended by a smaller mission, the United Nations Observer Mission to El Salvador (MINUSAL), which was disbanded at the end of 1996. The most intensive phase of Peace Accord implementation was from 1992 through 1995, when details of some programs, such as the Land Transfer Program, were elaborated.

This first post-conflict phase was characterized by the implementation of the Peace Accord provisions and economic recovery and growth. The two dimensions are interrelated.

The process was subject to considerable delay and frustration, but the problems were not fatal. Resistance within and among the parties to the Accords required continuing international engagement and pressure from the United Nations and the United States, the major bilateral sponsor of the peace process. In addition, the Bank convened a series of four CG meetings between 1991 and 1995 (discussed in Chapter 4).

Critics argue that the Bretton Woods institutions should have exerted greater pressure on the government to allocate more resources in support of Peace Accord programs (discussed in Chapter 7). Because of their own legal and policy constraints, few donors were forthcoming with aid for some key Peace Accord components, such as the Land Transfer Program and creation of the National Civil Police Force. Notwithstanding these issues, it must be recognized that the Peace Accord *were* implemented and that no armed conflict between the parties took place after January 16, 1992. The Peace Accords did bring an end to hostilities.

> Strong growth facilitated Peace Accord implementation; conversely, major road blocks to peace implementation could have had adverse implications for economic growth. Thus, the economic and political dimensions of the peace process were inextricably entwined.

Unresolved Issues: Security and Violent Crime

Among perhaps the most disturbing social phenomena of contemporary El Salvador that implementation of the Peace Accords did *not* resolve is that of the serious and growing problem of violent crime. This problem of the *microinsecurity* of individuals and enterprises (rather than the *macroinsecurity* of the state), particularly in urban areas, is in part a legacy of the conflict.[12]

Economic Progress

In aggregate terms, the post-conflict recovery of the Salvadoran economy was impressive. The recovery began in 1990 and continued through 1995, resulting in a growth trend of real GDP of 6.3 percent a year. Inflation was also brought under control. Having soared to 32 percent in 1986, and 24 percent as late as 1990, it was sharply receded to 14 percent in 1991. In 1996, it fell below 10 percent (9.9 percent) for the first time in two decades.[13] From a nadir in the 6–7 percent range in the early 1980s, the share of private investment in GDP climbed to almost 15 percent in 1995.[14] Government revenues, including tax receipts, increased relative to GDP, as did total national savings. Defense spending was reduced, and social sector (education and health) spending increased—in both real absolute and relative terms. The rapid growth also apparently reduced the incidence of poverty. The 1997 CAS for El Salvador reported a national decline in poverty rates from 1991 to 1995. Thus, a number of aspects of economic and social performance appear to have been quite positive during this period.

Remaining Economic Shortcomings

Despite this impressive progress, several qualifications are in order. First, while there was improvement in key economic parameters, there is considerable room for further improvement in such areas as the tax effort and social sector spending. (This issue is discussed further in Chapter 7 in connection with conditionality.) Second, there is debate about how significantly the growth experienced during this period benefited the poorest segments of the population and the extent to which the major sectors of the economy participated. The highest and most consistent growth sectors during this period were construction, commerce, finance, and transportation and communication. After an auspicious beginning, with average growth of more than 6 percent a year between 1991 and 1993, manufacturing contributed to negative industrial growth in 1994 and 1995. Agriculture was volatile, recording no growth in 1991, 9 percent growth in 1992, and returning to a no-growth position for two years before growing again at 5 percent in 1995.

From a 1993 level of US$823 million, remittances increased to just over US$1 billion in 1994 and 1995. According to the CAS, they reached US$1.3 billion in 1996. Remittances were something of a double-edged sword in their implications for economic performance. On the one hand, they have been a significant contributor to the alleviation of poverty. It has been estimated that one-third of families in El Salvador have at least one relative living in the United States, and that remittances received by poor urban and rural families serve to boost their incomes by one-third.[15] On the other hand, the remittances exert upward pressure on the *colón*, the Salvadoran currency, relative to the U.S. dollar. The resulting appreciated exchange rate reduces El Salvador's export competitiveness.[16]

Perhaps the most dramatic, and at the same time the most controversial, feature of the Salvadoran economy during this period was the massive inflows of private remittances.

Increasing the long-run international *competitiveness* of the Salvadoran economy has been a main pillar of the economic strategy of the Calderón Sol administration, which was peacefully elected in March 1994. Remittances have provided a windfall to the economy that cannot be sustained. They also provide a breathing space to increase competitiveness as a sustainable growth strategy.

The Next Phase, 1996 and Beyond

In several respects, the year 1996 was one of transition for the Salvadoran economy and society. It was the last year for the implementation of the U.N.-brokered Peace Accords. By the end of the year, most of the major elements of the Accords, including the Land Transfer Program, had been implemented. It was also a year in which there was at least a pause in the post-conflict economic performance that had been achieved from 1990 to 1995. Economic growth for 1996 is officially estimated at 2.5 percent, a sharp reduction from the previous five years. The contraction was triggered in part by a poorly designed set of monetary policy measures implemented in late 1995. But many observers also concluded that the steam had run out of the post-conflict boom, particularly in the construction sector, which had been growing at annual rates of 11 percent or more.

Challenges Ahead

During the first half of 1997, El Salvador faced a number of interrelated challenges, all linked, at least in part, to problems rooted in the civil conflict of the 1980s:

- How could the *economic momentum* of the first five years of the decade be regained and *participation* in growth among sectors and segments of the population broadened?
- How could *access* to opportunities and resources be increased for more of the population—that is, how to implement the "all" part of the current strategic theme of the government's economic policymakers, adopted by the Bank in 1997?
- How could headway be made on the serious problem of *microinsecurity*?[17]
- How could El Salvador create and use constructively mechanisms to *broaden the dialogue* on development issues across a wider range of political groupings, business organizations, NGOs, and other elements of civil society?

Other challenges, such as high underemployment and severe environmental degradation, could be added to the list.[18]

Two events in 1997 had significant potential implications for meeting these challenges. The first was the Municipal and National Assembly elections held in March. The political system has apparently accommodated smoothly to the significant realignment of political forces brought about by the elections, which resulted in a third of the National Assembly being represented by ARENA, a third by the FMLN, and a third by other parties, thereby replacing an ARENA-dominated Assembly. While ARENA won 160 of 260 municipalities, the opposition won 80 percent of the larger cities, including San Salvador. The ARENA party has reportedly responded with an internal shift geared toward entering into constructive dialogue with the opposition.

The second event was the passage on April 1, 1997, of relatively tough U.S. immigration legislation that called for the deportation of illegal immigrants. While the manner of administering the new law is not yet entirely clear, rigorous implementation could produce the feared "hard landing" of large numbers of immigrants forcibly returned to El Salvador, with attendant negative impacts on poverty and growth. It would seem that the best that can be hoped for is a "soft landing," with remittances gradually declining over time. This would permit several offsetting effects, such as a decline in import demand and a stimulus to exports from the resulting de facto depreciation of the exchange rate.[19]

Because of the conflict in El Salvador, no new Bank operations were approved between June 1979 and October 1987. The 1986 earthquake that devastated the capital prompted the Bank's reengagement in the country and allowed Bank staff to renew contacts with Salvadoran counterparts, leading to the development of productive pre-Peace Accord relationships with the government and FUSADES, the private think-tank. Elected in 1989, the Cristiani administration, whose key members came out of FUSADES, normalized relations with the Bank and requested assistance with a structural adjustment program. SAL I was approved for US$75 million in 1991, a year before the signing of the Peace Accords. In addition to its lending operations, other important contributions of the Bank to the reconstruction process included its analytical and advisory services; its donor coordination role; and the quality of the policy, institutional, and technical elements of its lending operations.

3

The Bank's Role in Brief

Before the Conflict, 1949- 79

The Bank's first project in El Salvador was for hydroelectric power development. Indeed, between 1949 and 1979, the Bank's El Salvador portfolio was dominated by physical infrastructure, which accounted for 13 of 21 projects initiated during this period. In addition, two projects were for urban development (including infrastructure components to provide residential and business site utility services), and two projects were for industrial and agricultural credits. The social sectors were represented exclusively by education, which accounted for four projects involving basic and secondary education and training. Of the total net disbursements of US$235.6 million for these projects, power projects accounted for 42 percent, telecommunications for 18 percent, education for 18 percent, transport (roads) for 13 percent, and urban development for 9 percent.[20]

Available evaluation documents on these projects indicate that the physical infrastructure projects were generally considered to have been more successful in achieving their objectives than the education projects. With respect to the latter, the physical construction objectives were typically achieved, but efforts to improve *quality* foundered because of insufficient high-level government support, weak project management, political interference, burdensome bidding and contract procedures, and a shortage of counterpart financing. However, the institutional elements of even the physical infrastructure projects tended to be weak.[21]

Several of these projects were initiated in the mid-to-late 1970s and were not closed until the early-to-mid 1980s. These later projects were all affected by the civil conflict, typically resulting in implementation delays of a year or more. The Industrial and Agricultural Training Project and the Fourth Education Project, approved in 1978 and 1979 and closed in 1985 and 1987, respectively, experienced a combination of conflict-related interruptions and project management problems that led OED to rate the outcomes of both projects "unsatisfactory." The Fourth Education Project suffered from inappropriate design as well as poor management. Project implementation lasted almost twice as long as planned, and even then just over 20 percent of committed funds were canceled at project closing in December 1987.[22] The distinctly mixed *pre*-conflict experience of the Bank in education in El Salvador contrasts significantly with its positive *post*-conflict experience, discussed in Chapter 6.

The First Phase of Conflict, 1979- 87

Owing essentially to the ongoing conflict and political instability, no new Bank-financed operation was approved for El Salvador between June 1979 and October 1987. However, several economic and sector studies were conducted during the period, including a Country Economic Memorandum (CEM) that focused on the macroeconomic and structural reforms necessary to spur growth through diversification and acceleration of exports.[23]

The Last Phase of Conflict and the Bank's Reentry, 1987- 91

Reentry

The Bank's reengagement in El Salvador was triggered not by conflict but by a major natural disaster—an earthquake that devastated portions of the capital in October 1986.[24] Within ten days of the earthquake, the Bank fielded a mission to develop a proposed emergency reconstruction project. By October 1987, the Earthquake Reconstruction Project Loan was approved. While this project did not relate directly to the conflict, and was viewed by Bank management as being as much *humanitarian* as economic in nature, it did provide an opportunity for Bank staff to renew contacts with Salvadoran counterparts. In July 1990, the project was modified to include financing for the rehabilitation of mainly rural primary schools damaged as a direct or indirect result of the conflict.[25]

Toward Normalizing of Relations

Renewed Bank contacts led to conversations with the minister of planning of the Duarte government in 1988–89 about the possibility of support for economic structural reforms. These discussions, however, met with resistance from protectionist elements in the government. More significant was a positive informal dialogue initiated between Bank staff and the staff of FUSADES, established in 1984 with generous funding from USAID.[26] The significance of this relationship became obvious when in mid-1989 the newly elected president, Alfredo Cristiani, who himself had come from FUSADES, selected his reform-minded economic team, including the ministers of planning and finance, as well as the head of the Central Reserve Bank (BCR, *Banco Central de Reserva*), from key FUSADES staff.[27]

The new government undertook a series of actions that led to a normalization and rapid expansion of relations with the Bank. It quickly resumed the servicing of previous Bank debt, which had been terminated in the closing months of the Duarte government. By January 1990, all arrears had been cleared. Meanwhile, the Bank prepared a CEM that focused on needed macroeconomic, public finance, trade, and sectoral reforms. In September, the government approached the Bank with a draft structural adjustment program and requested assistance for its implementation.

The Structural Adjustment Program

The main structural adjustment program elements had been identified by the administration's economic team during its tenure at FUSADES, where, in addition to its informal contacts with Bank staff, it had drawn on the contributions of outside experts, such as Arnold Harberger of the University of Chicago. While the identification mission for the proposed adjustment program, planned for November 1989, was delayed because of a burst of violent conflict that month, it was carried out in April 1990. Design and appraisal missions followed later, in August and October.

> SAL I provides an embryonic outline of what would continue for the next few years to serve as the Bank's post-conflict reconstruction CAS for El Salvador.

Pre-SAL Government Reforms

SAL I, of US$75 million, was approved by the Bank's Board in February 1991. Important economic policy reforms carried out by the government in 1989 and 1990—that is, before SAL approval—included:

- Moving to a market-determined exchange rate
- Reducing the import tariff band to between 5 and 35 percent (from one that had varied between 0 and 290 percent)
- Removing price controls on 231 of 240 previously controlled items
- Enhancing tax revenue measures
- Tightening controls on expenditures and eliminating numerous subsidies

- Implementing strict control of credit expansion and upward adjustment of interest rates.

The strategy, developed in coordination with the IMF and the IADB, can be summarized as follows:

- It addressed key policy and structural issues through quick-disbursing operations.
- It complemented and supported the structural adjustments process with operations in the social sectors to support the government's objectives of eradicating absolute poverty and minimizing the impact of adjustment on the most vulnerable members of the population.
- It developed a pipeline of project lending, particularly in the productive sectors.
- It assisted the government in mobilizing additional resources on terms as concessional as possible.

The main elements of SAL I and its implementation are reviewed in Chapter 5. It is important to note that the government came to the Bank with a reform program that was largely accepted without modification—except for more detailed issues, such as timing and the addition of a pilot nutrition program component.

> In moving forward to negotiate and approve SAL I before peace was concluded, the Bank was taking a risk that the conflict would continue and that the reforms it was supporting would be reversed.

In order to successfully implement the government's ambitious structural adjustment program, domestic political stability was needed. Political changes in Central America and the resumption of peace talks with FMLN were promising, but the situation remained tense. The possibility of a breakdown in the talks or a resurgence in violence would hamper the program's prospects.

The Bank accepted this risk, based on its assessment of the new government and the way the peace process was moving. For the government, the approval of the SAL while peace negotiations were still ongoing helped to enhance its credibility in the eyes of the international community. For the Bank, the SAL provided a basis for its role as convener of a series of CG meetings.

Social Sector Assistance

Generated by a mutual concern over the deterioration in health and education during the conflict, the government and the Bank began, at the same time, a dialogue on the needs of these sectors. A Bank mission to El Salvador in October 1989 produced a report that led to the design and approval in June 1991 of an SSRP that included financing from a US$26 million IBRD loan, and supported the reform of both the health and education sectors, including strengthening the institutional capabilities of the respective ministries.[28] Thus, the government and the Bank successfully concluded the negotiation of significant assistance for the two major social sectors over six months *before* the Peace Accords were signed.[29]

The Bank's Aid Coordination Role

Arguably the most important role the Bank played during this period and in the initial post-conflict years was to call a series of CG meetings for El Salvador. The first of these meetings was held in Paris in May 1991, more than six months *before* the Peace Accords were signed. (The significance of these meetings is discussed in Chapter 4, which assesses the Bank's role in aid coordination in El Salvador.)

> With its assistance in the preparation of the NRP and the convening of the CG meetings, the Bank also contributed significantly to the 1991- 92 peace process.

In this context, the Bank contributed by providing staff and consultant assistance to the government—along with parallel assistance from USAID, the IADB, and the UNDP—in the preparation of the NRP. However, this contribution by the Bank does not seem to have been recognized by critics of the roles of the Bretton Woods institutions in the Salvadoran peace process.[30]

The First Phase of Peace, 1992- 95

The *financial* magnitude of the Bank's operations should be set in the context of total donor assistance. Table 3.1 and figure 3.1 show that assistance flows from USAID declined sharply from 1990 to 1995, while flows from the IADB increased. Nonetheless, over the entire period, net receipts from USAID still accounted for a dominant share of the overall total, followed by the IADB, Germany, Japan, the Commission for the European Communities, and the Bank. Several subsequent chapters of the study provide evidence of these contributions.

During the period of the Peace Accords implementation, the Bank continued its roles of supporting economic stabilization and leadership of the CG process. SAL I, which closed in June 1993, was supplemented by SAL II, approved by the Board for US$50 million in September 1993, with a closing date at the end of 1994.[31] Regarding aid coordination, the Bank led three more CG meetings in March 1992, April 1993, and June 1995.

Table 3.1: Official Development Assistance to El Salvador

	Total receipts net, 1990- 1995 (US$ millions)						
Source	1990	1991	1992	1993	1994	1995	Total
Germany	29.1	31.4	27.0	15.5	29.8	35.5	168.3
Japan	7.6	7.4	7.9	15.4	20.6	76.3	135.2
United States	246.0	230.0	231.0	207.0	142.0	115.0	1,171.0
Total, DAC countries	343.7	319.4	321.5	290.3	230.7	251.4	1,757.0
CEC	6.1	11.0	23.8	43.0	24.8	22.7	131.4
IADB	- 6.3	0.8	25.3	81.5	67.8	97.6	266.7
IBRD	- 13.0	44.0	- 1.4	33.9	51.8	4.8	120.1
UNDP	2.5	3.5	8.2	14.9	15.5	8.3	52.9
Total, multilaterals	- 3.1	74.7	76.6	184.9	172.6	147.9	653.6

In addition, an Agricultural Sector Reform and Investment Project was approved for US$40 million in March 1993, and an Energy Sector Loan was approved in July 1995 for US$65 million. Building on the promising performance of the education component of the SSRP, in September 1995 the Board approved a Basic Education Modernization Project, cofinanced by the Bank and the IADB for US$34 million and US$37.3 million, respectively. The basic substantive thrust of the strategy was to ensure that economic growth remained sustainable by helping the government meet four principal challenges: (a) modernizing the public sector, (b) enabling private sector and export-led growth, (c) reducing poverty and investing in human capital, and (d) strengthening natural resource and environmental management.

The Next Phase, 1996 and Beyond

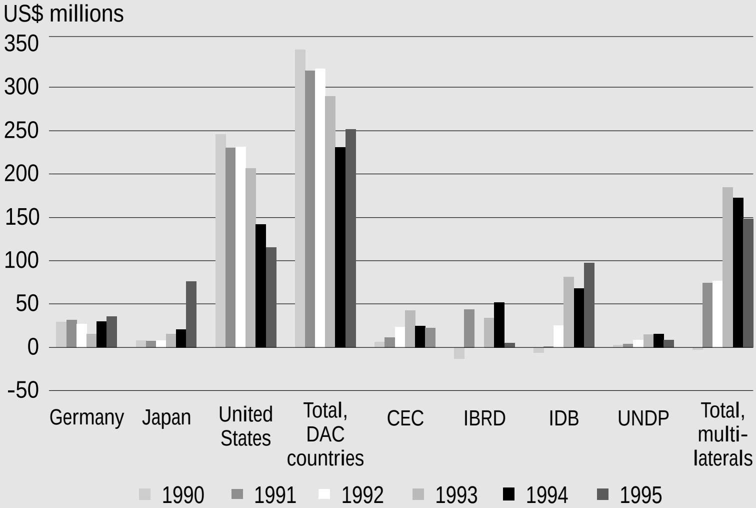
In 1995–96, the Bank continued to work closely with the economic team of the Calderón Sol administration, elected in mid-1994. Two

Box 3.1: The Bank's Major Contributions during the First Phase of Peace

The Bank's financial contributions were important in a number of areas. The SALs, in particular, provided needed balance of payments (especially SAL I) and budget support (especially SAL II). Perhaps even more significant were the following elements of the Bank's program:

- Its analytical and advisory role, or nonlending services
- Its donor coordination role
- The quality of the policy, institutional, and technical elements of its lending operations.

Figure 3.1: Assistance Flows, 1990- 95



major Bank studies, a CEM and a Private Sector Assessment (PSA), supported the government's strategy. They also analyzed constraints in such areas as macroeconomic stability, labor markets, infrastructure, the legal and regulatory framework, trade and technological diffusion, and the financial sector. The PSA reported that problems of security or "common delinquency" were the fifth leading constraint faced by firms surveyed for the study. However, the assessment's main analysis did not address this pervasive *microinsecurity* problem.[32]

Bank Lending Program

The Competitiveness Enhancement Technical Assistance Loan (TAL), approved in September 1995 for US$16 million, provided support for studies and technical assistance intended to help the government address the above-mentioned constraints. In March 1996, a Land Administration Project, intended to regularize land registration and improve land tenure security, was approved for US$50 million. Also, a Public Sector Modernization TAL was approved in September 1996 for US$24 million. A Secondary Education Project was approved for US$58 million in August 1997. These projects reflect the Bank's support for the government's economic goal of increasing international competitiveness in both the wider economy and at the individual level.

Country Assistance Strategy

In February 1997, the Bank submitted a new, stand-alone El Salvador CAS to the Board. The document strongly supported the government's strategy of making peace sustainable through the realization of its vision of *competitiveness for all.* The CAS basically reemphasized many of the points of the previous CAS on "meeting four interrelated challenges that flow from the vision of all-inclusive competitiveness: (i) social development—reducing poverty and increasing human capital; (ii) improving environmental management; (iii) enhancing competitiveness; and (iv) modernizing the public sector." The first paragraph made reference to a "dramatic increase in violent crime, with which the government is struggling to cope," but the problem was not given further analytical or programmatic attention. Crime of the proportions found in El Salvador is admittedly a vexing one for the entire donor community. Apart from increasing awareness through such means as supporting conferences, operational initiatives have been elusive.[33]

The donor coordination role the Bank played just before the signing of the Peace Accords and during the first few years of post-conflict reconstruction was indispensable. The holding of a CG meeting before the Peace Accords were signed and the commitment of experienced and capable Bank leadership to the process contributed significantly to the effectiveness of coordination. It was also important that the government gave priority to donor coordination and endorsed the Bank's supportive role.

4

The Bank's Role in Aid Coordination

There was criticism of the donor coordination process for El Salvador, particularly at the time of the Peace Accords.

The Ministry of Planning took the lead responsibility within the government for ensuring donor coordination, and it had a clear idea of the assistance it needed from the Bank in convening and leading the CG meetings.

The Consultative Group Meetings

The newly elected Cristiani administration looked to the Bank to mobilize support from other donors and help coordinate their assistance. This led to the Bank's convening the first El Salvador CG meeting in May 1991. This meeting and the three subsequent CGs held over the following four years were essential to the success of post-conflict reconstruction efforts.

The First CG: Donor Reengagement with El Salvador

A main purpose of the first CG meeting was to garner donor support for the preparation and implementation of a national reconstruction program, in anticipation of peace accords. The meeting seems to have been well-timed, following an interim agreement in April 1991 between the parties on constitutional changes—and the Board's approval in February of SAL I, which the government viewed as enhancing its credibility in the donor community. While the government knew it could count on the support of the United States, the attitudes of other donor countries ranged from lukewarm skepticism or "wait and see" to outright hostility. The May 1991 CG meeting thus provided an important early opportunity to build broader support.

Seven Organization for Economic Cooperation and Development (OECD) countries attended the meeting.[34] So did Mexico, Venezuela, the Commission of the European Community, the IADB, the International Fund for Agricultural Development (IFAD), the IMF, the UNDP, and the World Food Program (WFP), as well as the Bank and the government of El Salvador.[35] While the meeting did not have the breadth of country representation that might have been hoped for, it nevertheless constituted a significant first step toward establishing public credibility within the donor community in advance of the Peace Accords.

One of the major conclusions of this study is that donor coordination for post-conflict reconstruction was generally effective and that the Bank made a major, if relatively unrecognized, contribution to the outcome.[36]

The El Salvador delegation, headed by the chief architect of the government's macroeconomic program, Mirna Liévano de Marques, Minister of Planning, and Cecilia Gallardo de Cano, Minister of Education, made favorable impressions on the participants, and the group responded with an expression of willingness to support the design of a national reconstruction program and its implementation upon the cessation of hostilities. The meeting also represented the successful result of efforts by the Bank's country team in helping the government prepare for the meeting and in encouraging donor representatives to attend.

The Second CG Meeting: Building Broad Donor Support for the National Reconstruction Plan

The second CG meeting, held in Washington on March 23, 1992, just over two months after the Peace Accords were signed, was more formal than the first in that it anticipated pledges from participants in support of the NRP. While the total amount pledged fell short of the US$1 billion requested by the government for the NRP, the meeting nonetheless represented a measure of success for the government and the Bank. Nineteen countries (16 as representatives and 3 as observers) and 12 multilateral organizations attended. In addition to the countries that participated in the first CG meeting, this meeting was also attended by Austria, Colombia, Finland, Spain, Sweden, Switzerland, and the United Kingdom as representatives, and Denmark, Norway, and Portugal as observers. This extensive participation was in no small measure the result of the personal efforts of the Bank's Country Department Director, who personally visited European capitals to urge attendance. One highlight of the meeting was a statement in support of the NRP by the representative of the FMLN.[37]

The Third CG Meeting: A Critical Review of Development and Peace Efforts

The third CG meeting, held in Paris on April 1, 1993, constituted a critical review for the government and donors alike. It had to respond to some relatively sharp criticism from some donors and from the FMLN representative about progress in implementing Peace Accord provisions, adhering to the findings of the recently issued *Report of the Truth Commission*, and intensifying its own resource mobilization efforts in support of the Accords.

For the donors, it meant being more forthcoming in providing expeditious financing for some of the "priority" components of the NRP, particularly those mandated by the Accords. These included such items as the Land Transfer Program, the National Civilian Police, the justice system, and other ex-combatant reintegration programs—as opposed to longer-term, "nonpriority" development projects. Funding for the Accords-mandated provisions had been slow to materialize for a variety of reasons, including bureaucratic delays and legal or procedural restrictions against providing assistance for land acquisition, law enforcement activities, or recurrent costs.

> A letter from the U.N. Secretary-General was read at the CG meeting, exhorting the international community to support the transition to peace. The government also pointedly emphasized the need for speedy nonproject assistance that would permit the financing of Peace Accord programs.

The main vehicle the Bank had in mind to support these needs was a second structural adjustment operation, SAL II (discussed in the next chapter.) Thus, for the Bank, the CG meeting presented an opportunity and a challenge to mobilize as much *cofinancing* as possible for SAL II.[38]

The Fourth and Last CG Meeting: Funding the Remaining Financing Gap for the Peace-Mandated Programs

The fourth CG meeting, co-chaired by the Bank and the IADB, was held in Paris on June 22, 1995. This was the first CG for the Calderón Sol government, elected in June 1994. It was also the last CG meeting of the series, since the government has not requested subsequent meetings.

At the meeting, the government issued a relatively detailed report, *El Salvador: Financing Needs to Conclude the Peace Agreements*.[39] The report pointed to the country's significant overall economic performance, noting that notwithstanding delays, most Peace Accord–related programs had been implemented. It also identified a continuing financing gap of US$118 million in the "peace-mandated" programs. This gap constituted 9 percent of the total US$1,283 million cost of the "peace-mandated" programs and 6.5 percent of the total US$1,552 million cost of the overall NRP, including "social and economic reconstruction." The financing gap was the main agenda item for the meeting, which was otherwise relatively uneventful. Participants understood that this meeting would be the last of the series.[40]

Outside Assessments of the Bank's Coordination Role

Critique of the Roles of the Bretton Woods Institutions and the U.N. in El Salvador

The Bretton Woods institutions have been the subject of criticism for insufficient coordination with the U.N., particularly during 1991–92—that is, in the negotiation and early implementation stages of the El Salvador Peace Accords. The sharpest criticism was made in a widely cited *Foreign Policy* article, "Obstacles to Peace Building,"[41] by Alvaro de Soto, who represented the U.N. Secretary-General in the Salvadoran peace negotiations, and Graciana del Castillo. The authors criticized the Bank and IMF as follows (p. 72):

> *The World Bank consults with the United Nations Development Programme in the field about specific development projects. However, the IMF and the World Bank did not consult with the U.N. in the elaboration and subsequent implementation of the economic program they sponsor[ed]. It appears in retrospect that they followed their perceived path as if there were no war, often supporting government projections that underestimated the costs of peacebuilding.*

However, the authors were equally critical of the U.N. (pp 72–73):

> *When the U.N. itself engaged in peace negotiations early in 1990, it did not think to consult the IMF or the Bank, notwithstanding the serious financial implications of postwar rehabilitation and reconstruction of the Salvadoran economy. Not even during the negotiation of the economic and social portion of the Peace Accords in late December 1991 was participation of the Bretton Woods institutions sought. Likewise, in the negotiation of the subsequent program for transferring land to former combatants in October 1992, the U.N. went off on its own, largely oblivious of the financial pressures the peace agreements were bound to impose on the stabilization program.*

Taken together, these criticisms suggest that politics and economics did not inform each other in the El Salvadoran peace implementation process. Later in a widely quoted passage, these authors, critical of the U.N. and the Bretton Woods institutions, made the following analogy: "It was if a patient lay on the operating table with the left and right sides of his body separated by a curtain and unrelated surgery being performed on each side." (p. 74)

While the "operating table" analogy is catchy, it entails some conceptual and empirical problems. It paints a picture of two active operators, the U.N. and the Bretton Woods institutions, and one passive "patient," the country. Of course, the country, represented by the Cristiani administration and the rebel FMLN movement (and subsequent opposition political party), was very active, with both the government and the FMLN carrying on a dialogue with the U.N. and the Bretton Woods institutions.

The Bank Perspective

In the case of the Bank, the primary relationship was with the government. This was necessarily so, since by stricture of its Articles of Agreement, the Bank can only negotiate loans with a member government (or an enterprise or other government when a member government provides a satisfactory, full guarantee of the loan).[42] This did not preclude *dialogue* between the Bank and the FMLN, which, with the consent of the government, did occur.[43]

A more basic issue from the Bank's perspective is the empirical validity of the de Soto and Del Castillo contention that "the IMF and the World Bank did not consult with the U.N. in the elaboration and subsequent implementation of the program they sponsored." According to key members of the Bank's country team for El Salvador at the time, this is simply not correct. Members of this team were making monthly visits to El Salvador during the critical years of 1991–92. During each visit, they had extensive meetings with U.N. officials in order to ensure, among other things, that the economic reforms being discussed with the government were incorporating the most realistic estimates of peace-related financial needs. While such meetings were usually with UNDP officials based in San Salvador, they included meetings on at least two occasions with de Soto and del Castillo. In addition, two members of the Bank's team met with U.N. officials in New York to discuss the links between peace and its economic requirements.

> Taking available sources of information into account, it would appear that if there was a problem of coordination between the U.N. and the Bretton Woods institutions over the financial requirements of the Peace Accords. The problem was inherent in the closed nature of the key high-level political negotiations in 1991 and early 1992.

It is also apparent that de Soto had been a party to discussions with Bank officials where issues regarding the linkages between likely Peace Accord scenarios and the economic requirements were raised. But when it came to the negotiations themselves, de Soto and his U.N. team did not have this economic expertise at their side to draw on.[44]

Other Perspectives on Aid Coordination and the Bank's Role

Other observers have been more positive about the Bank's coordination role, particularly through the CG process. The government found the Bank's role to be invaluable.[45] A former director of the USAID El Salvador Mission judged the Bank's role in organizing the CG process to be "very useful in establishing a forum for dialogue between the government and donors" and noted that the earlier CG meetings in 1991 and 1992 provided a "cover" for some bilateral donors to reengage with El Salvador who would otherwise have found it politically difficult to do so.[46]

Perhaps the most balanced assessment of donor coordination for El Salvador, including the role of the Bank, was presented in a paper prepared by USAID El Salvador staff for an OECD meeting. But even this statement did not recognize the efforts Bank staff made to discuss resource cost issues with U.N. officials *before* the Peace Accords were concluded. USAID noted:

> This assessment points to the lack of costing of the Peace Accords before they were concluded. However, at least some involved in the process believe that it was better that costing was not attempted, since the negotiations could have become bogged down on this issue.[48]

> *Coordination among donors is extremely important. There was minimal coordination between the United Nations and the Bretton Woods institutions and other potential donors [before the Peace Accords]. The cost of implementing the Peace Accords was not quantified, and a few weeks before the cease-fire there were no funds available to finance priority programs. After the cease-fire, coordination by the World Bank in the context of the Consultative Group meeting[s] [was] highly beneficial. The World Bank and IMF presentations at those meetings assured other donors that the government's economic program was well conceived. Bilateral donor backing for the peace and democratization efforts of the government, which was strongly expressed in the Consultative Group meetings, strengthened the position of moderate elements on both sides of the conflict.*[47]

The Bank's Working Relationships with Other Donors

The Bank and the UNDP

Coordination between the Bank and the UNDP Resident Mission in San Salvador has generally been satisfactory. A major exception was the unanticipated arrival in late 1991 of a large team of more than 60 high-level staff and consultants drawn from various U.N. agencies and charged with helping to prepare the NRP. The team imposed a significant burden on the government when preparatory work on the NRP was already relatively advanced. The team left behind a report that was deemed of limited usefulness.[49]

Subsequently, a division of labor evolved between the Bank and the UNDP, with the UNDP concentrating particularly on issues relating to democratic processes and justice. Moreover, the UNDP developed effective working relationships with NGOs associated or identified with the FMLN and with donors who preferred to channel their aid through the UNDP to these NGOs, rather than through the government.[50] The UNDP also served as procurement agent for the Bank-supported SSRP and, according to the recently prepared Implementation Completion Report (ICR), performed this role effectively.[51]

Bank-USAID-IADB Relations

Working relationships between the Bank and two other major donors to El Salvador, the IADB and USAID, have been generally effective. The IADB has concentrated on physical infrastructure, health, and sanitation and on contributions to the El Salvador Social Investment Fund. American bilateral programs, mainly through USAID, were major sources of support for the NRP municipal development programs administered by the Secretariat for National Reconstruction (SRN). Also, because of the securing of legislative and procedural waivers, USAID was able to provide support for land acquisition under the Land Transfer Program for ex-combatants, establishment of the National Civilian Police Force, and efforts to reform the justice system.[52]

Bank-IMF Relations

Another important arena for coordination has been that of the Bank and the IMF. Bank staff working on El Salvador have viewed relationships with the IMF as complementary and productive. A position initially taken by *Bank* management that the government draw from the IMF Stand-By as a condition of Bank approval and disbursement of SAL II did raise questions among the IMF's Board members. This position also raised the following concern for the government: why should it borrow the relatively expensive resources of the IMF to increase its BCR reserves, which were already at a fairly comfortable level, when what it really needed was general financing for peace programs? The issue was resolved through an understanding that the government *could*, should a balance of payments need arise, draw from the IMF Stand-By, but was not otherwise obligated to do so. Further discussion of the rationale for SAL II, in particular the *balance of payments* versus the *fiscal* grounds for its justification, is presented in Chapter 5.

El Salvador has had three Stand-By Arrangements with the IMF, ranging from SDR38 million to SDR47 million and covering the period January 1992 to September 1996 almost continuously (with the exception of the first half of 1995). However, the Stand-Bys have never been drawn down and have been treated as precautionary. Rather, the government negotiated them in order to help furbish and maintain its international financial credit and investment standings. The 1997 CAS reports that the government had requested a new 12-month Stand-By Arrangement to support its 1997 economic program.

Bank assistance was critical to laying a sound macroeconomic foundation for economic recovery during the first half of the 1990s, as well as for mobilizing international economic support. SALs I and II provided support to the government's 1989- 94 Economic and Social Development Program, focusing on such areas as taxation, privatization, trade, the financial sector, social sectors, and poverty alleviation. Other economic sector projects in the Bank's portfolio fall into three groups: energy, agriculture, and competitiveness and public sector modernization. While none of these projects focus exclusively on the ex-conflict zones, they virtually all seek to bring about important policy and institutional reforms. Just as in the case of the SALs, the situation immediately preceding and following the Peace Accords provided the Bank a window of opportunity, which it grasped, to make such reforms the leitmotif of its post-conflict portfolio.

5

The Bank's Role in Stabilizing, Reforming, and Rebuilding the Economy

First Structural Adjustment Loan

SAL I, approved by the Board in February 1991 for US$75 million and made effective in June, was designed to support the government's 1989–94 Economic and Social Development Program. SAL I, disbursed in three tranches, focused on five principal areas that were closely aligned with the government's economic program:

- Trade policy, centered on narrowing the tariff band
- Fiscal policy, aimed primarily at introducing the value-added tax (VAT)
- Monetary policy and financial system reforms, with special emphasis on liberalizing interest rates and restructuring and privatizing the banking system
- Agricultural sector reforms, focusing on the liberalization of producer prices and the divestiture of assets of agricultural marketing agencies
- Social reform, with primary attention to nutrition programs.

Many of the reforms called for by SAL I were "front-loaded," in that they were conditions for approval of the loan. Many of the reforms were enacted by the time of the loan's approval in February 1991. One significant consideration was undoubtedly that much of the reform program had been developed by FUSADES staff, several of whom subsequently became the economic team of the Cristiani administration.

Impact Assessment

SAL I was fully disbursed and closed on schedule at the end of June 1993. It was widely viewed in the Bank to have been successful in accomplishing its objectives.

The most significant exception, according to the Project Completion Report (PCR), was the social reform component, which consisted of three nutrition pilot programs. Management-intensive implementation problems entailed by these pilot programs led the PCR to surmise that "in retrospect, an investment project may have been a more appropriate vehicle for implementing the nutritional program." Nevertheless, it was concluded that an adjustment operation that might cause additional social hardship should include countervailing measures, and, in the end, two out of the three measures included in the nutritional component were indeed successfully implemented.[53]

Bringing about the divestiture of assets of agricultural marketing entities turned out to be more difficult than anticipated because of procedural delays, political opposition, and resistance from employee groups. One reason, according to the PCR, was some unwillingness on the part of the government to make unpopular decisions.

Lessons Learned

Other lessons learned from this project include the need for closer analysis of "sequencing issues within sector reforms," particularly within the financial sector. The PCR also recommended that in designing loan conditionality, instead of identifying many closely related individual actions, such as a large number of import and export permits, a broader definition should be used to allow more room for Bank technical judgment on whether satisfactory compliance meets the objectives.

The Bank had initially proposed setting explicit *social expenditure targets* (as shares of GDP) in SAL I conditionality, but these were dropped in favor of a more general condition in view of the lack of information on social spending levels by type of program. However, more explicit targets were introduced in the SSRP, approved in June 1991.

Second Structural Adjustment Loan

SAL II, approved by the Board in September 1993 for US$50 million and made effective in October with the first of two tranches, sought to provide continued support to the government's 1989–94 economic reform program.[54] Specifically, SAL II was designed to:

- Lay the analytical framework for a comprehensive public sector modernization effort

- Consolidate and deepen reforms supported by SAL I in taxation, privatization, trade, the financial sector, social sectors, and poverty alleviation
- Promote actions to strengthen public expenditure, civil service, and environmental management and to restructure the hydrocarbon sector.

Impact Assessment

SAL II closed on schedule, fully disbursed, at the end of December 1994. The ICR rated the achievement of objectives as "substantial," sustainability as "likely," and assessment of outcome and Bank and borrower performance as "highly satisfactory."

The ICR concluded that the overall outcome of SAL II had been very positive and that the strong support it had received from the government, as well as the continuation of the reforms since the loan closed, boded well for its sustainability. The ICR could find very little to criticize in what had been an ambitious reform program, with second tranche conditionality covering "23 major areas, many of which included several sub-conditions."

With two exceptions, there was full compliance with actions required, and in a number of areas, reforms exceeded the stipulated conditionality. The two exceptions of "partial compliance" also seemed to meet the intent of the conditions. In one case the government took an even more expansive approach (to privatize sugar mills). In the other case, the government implemented an alternative approach to a sub-condition (which resulted in a "less distortionary system for diesel subsidies"). In both instances, it was concluded that partial waivers for these two sub-conditions had been fully justified.

Lessons Learned

Among the lessons learned from SAL II, were:

- Borrower ownership of an adjustment program is critical.
- A change in government inevitably causes some delay in implementation—which the Bank had not anticipated, but did not in the event find problematic, since the new government also displayed strong commitment to continuing the reforms.
- Careful preparation of detailed action plans and intensive coordination of studies was essential to communicating program goals and objectives to interested entities, thereby ensuring borrower consensus on the reform agenda at appraisal.
- Contributing factors to the success of this follow-on adjustment operation were careful and appropriate sequencing of reform

measures, especially in the financial sector, and continuity of government and Bank staff.

Fiscal Considerations

There is another dimension to the story of SAL II, which is not told by the ICR. Apart from the policy reforms referred to above, a basic rationale was to assist the government in meeting its *fiscal* needs in the face of a continued gap in financing for such priority Peace Accord components as the Land Transfer Program for ex-combatants and the establishment of the National Civilian Police Force.

As mentioned above, an objective of the Bank at the third CG meeting in April 1993 was to secure cofinancing for SAL II in order to augment the availability of such resources to the government. However, the SAL had to be justified on *balance of payments* grounds. With the massive inflows of private remittances as well as official aid, such a justification became untenable. Bank staff were able to make the case that both of these inflows were volatile and, therefore, the country was still vulnerable to a balance of payments crisis.

A further issue, as noted above, arose when Bank management initially took the position that the government draw on the IMF Stand-By as a condition for SAL approval. While SAL II was approved without imposing such a condition, the process entailed considerable effort and some frustration for Bank staff, as well as, at times, awkward discussions with both the government and the IMF.

Subsequent to the approval of SAL II, Bank operational policy on several aspects of adjustment lending, including its rationale, was the subject of further staff work and discussion with the Board. As a result, policy is in the process of being clarified to incorporate fiscal considerations more explicitly in the justification for adjustment lending.[55] The issue of the *fiscal* justification for SAL II is revisited in the discussion of conditionality in Chapter 7.

OED comments on SAL I and SAL II concur with the ratings and find their quality to be satisfactory ("very good" in the case of SAL I). Both sets of comments indicate that a combined Performance Audit Report (PAR) of the two operations is planned.[56]

Technical Assistance Loan

SAL II was accompanied by a TAL for US$2.5 million. It was used to support studies, policy analyses, and the development of action plans complementary to SAL II, as well as the preparation of further restructuring actions related to public sector modernization.

Impact Assessment

The ICR rated overall performance of the TAL "satisfactory," notwithstanding limited expected impact of three of the seven components.[56] An independent review identified a number of reasons for the good performance. First, there was strong country commitment and ownership. Second, the government and the Bank shared a clear vision regarding the objectives for the TAL. Third, the Bank brought to bear a high level of expertise, especially in the social sectors. Fourth, there was excellent coordination within the government and among donors, including the UNDP, IADB, and USAID. Fifth, there was staff continuity in the government, across two presidential administrations, and within the Bank. Finally, there was early development and mutual agreement on monitoring and evaluation systems, including the creation of a social sector database.

> Government officials gave a clear message that the quality of the analytical and advisory services provided, and the relationship with the Bank in general, were considered more important than the relatively modest resource transfer provided by the TAL operation.[57]

Other Economic Sector Projects

Other economic sector projects in the Bank's portfolio fell into three groups: energy, agriculture, and competitiveness and public sector modernization. While none of these projects focused exclusively on the ex-conflict zones, virtually all sought to bring about important policy and institutional reforms. As pointed out earlier, this tended to be a weakness across the pre-conflict portfolio of the Bank. Just as in the case of the SALs, the situation immediately preceding and following the Peace Accords provided the Bank a *window of opportunity*, which it grasped, to make such reforms the leitmotif of its post-conflict portfolio.

Energy Sector Projects

The Power Sector Technical Assistance Project, approved in May 1991 for US$11 million, reinitiated Bank involvement after a 14-year hiatus. This was the sector in which the Bank had previously been most active, with seven projects in the years 1949 and 1976. The main objective of the Power TAL was to assist the government in improving the efficiency of the energy sector. Specifically, it involved a formulation of energy policy, including rationalizing tariff setting. It also supported the creation of an independent regulatory body to oversee the state-owned utility company. The enabling framework was revised to foster private sector participation. Finally, management and project preparation capabilities were strengthened, emphasizing environmental considerations.

The Energy Sector Modernization Project was approved in May 1995 for US$65 million, with additional cofinancing of US$20 million from the Japan EXIMBANK and US$16.2 million provided by National Electric Power Company (CEL), the state utility. This project provided 11 percent of the financing for the 1995–99 phase of the Power Sector Investment Program, which included modernization of existing capacity as well as installation of new capacity. The project was also a further extension of the policy and institutional reforms supported by the Power TAL. The IADB, the private sector, and the government (through CEL) financed other elements of the program. The project's Memorandum of the President (MOP) suggested that, notwithstanding the Power TAL, there is still considerable scope for reform and improved efficiency in the sector.

Agriculture Sector Projects

The Agricultural Sector Reform and Investment Project, known as PRISA, was approved in March 1993 for US$40 million. PRISA aimed to help the government develop and implement agriculture policy and strategy, including the provision of agricultural support services in the ex-conflict zones. It also supported reforms and strengthened the key public sector institutions in agriculture, including privatization of support services. The generation of more productive and environmentally sustainable agricultural technology was also accelerated through support for research. Finally, productivity of small and medium-size farmers was improved by the enhancement of agricultural extension services. A major initial focus of PRISA was to strengthen the Ministry of Agriculture and Livestock and the National Agricultural Technology Center, both of which were decimated for lack of funding during the decade of conflict. These components are currently being streamlined and restructured to be more demand-driven and to include private sector involvement.

Post-Conflict Project Aspects

Of particular relevance to post-conflict issues are a 1994 amendment to PRISA for a US$5.6 million pilot project to support land regularization and registration in the Department (province) of Sonsonate and a US$2 million Project Preparation Facility that incorporated the National Registry Center (CNR) into the Land Transfer Program. The pilot project provided mobile cells to undertake cadastral and registration services in the ex-conflict zones, which helped relieve what had become a significant bottleneck in the Land Transfer Program.[58]

The PRISA pilot project led to the development of a full-scale Land Administration Project, approved in March 1996 for US$50 million and effective in March 1997. The pilot project had confirmed the need for substantial institutional reform and technical upgrading of the government land cadastral, titling, and registration capacity. The objective of the new project is to strengthen and decentralize the new CNR, acquire land data to regularize land mapping and registration, and carry out project administration nationwide.

> The Land Administration Project is thus intended to address one of the root causes of socioeconomic tension and conflict in El Salvador: insecurity of land tenure.[59]

Competitiveness Projects

Two recently approved technical assistance loans are *indirectly* related to post-conflict reconstruction. The Competitiveness Enhancement TAL, approved in September 1995 for US$16 million, sought to improve the enabling environment in three areas: the business environment, technological capabilities, and public information. Each included several subcomponents. Those specified for the "business environment" component are particularly wide-ranging, including competition and consumer protection law and enforcement, enterprise restructuring, private provision of infrastructure services deregulation and facilitation, and financial markets development. The "technological capabilities" component included a quality and productivity program, a science and technology policy and institutional development element, and support for the preparation of a national strategic plan for technical training. The "public information" component included support for a public information program, study tours, and working groups intended to build consensus on economic competitiveness issues.

Public Sector Modernization Project

The Public Sector Modernization TAL, approved in September 1996 for US$24 million, was intended to help the government redefine the role of a reduced public sector and involve the private sector in the provision of public services. It also aimed to strengthen operations for entities that remain in the public sector, with a focus on enhanced performance, accountability, and transparency. Project elements included institutional restructuring and bureaucratic streamlining, strengthening human resources and financial management, and privatization and increased private sector participation. The IADB is to provide cofinancing for an additional US$19.7 million.

Future Directions

A main intent of projects under preparation would appear to be to deepen and reinforce the efforts of ongoing projects.[60] These include:

- A follow-on Public Sector Modernization TAL to support the remaining public sector reform agenda, the second phase of privatization, and the design of regulatory frameworks
- An Information Society TAL to broaden and deepen the current competitiveness agenda, with a focus on the development of a "knowledge-based society"
- A potential Infrastructure Guarantee to help attract foreign investors to privatization and future development of infrastructure.

In addition, a new Rural Development project would focus on rural poverty reduction and improved environmental management at the farm level.

The continued focus on policy and institutional reforms in economic sectors, although now at more *microlevels*, would appear to be appropriate for the Bank, especially given the heavy involvement of the IADB in direct support to infrastructure.

A crucial question is whether the additional reforms and other initiatives, if implemented, will result in enough growth, employment, and broadly based income generation to ameliorate poverty sufficiently to check and reverse the current high levels of unemployment, underemployment, and crime-themselves legacies of the conflict.

A related question is whether the Competitiveness Enhancement TAL, and the reforms it supports, will provide sufficient protection for *competition* and barriers to monopoly in the various sectors of the economy. It is likely, however, that the programs above, even if effectively implemented, would not by themselves be sufficient to reverse these disturbing trends. Progress in reforming the institutions of *human and social capital* is also essential.

The Bank's assistance to El Salvador focused mainly on macroeconomic reform but also included projects addressing the health and education sectors to improve the country's poor social indicators. In this context, the Bank seized a window of opportunity in supporting EDUCO, the community self-managed education initiative of the government. This expanding initiative promises to correct and reverse some basic deficiencies in the pre-conflict educational system of El Salvador. The EDUCO experience provides a good example of post-conflict support going beyond reconstruction to a redirection of development. However, no effort, with or without donor support, has yet shown any real promise of reversing violent crime of epidemic proportion- in part a serious socioeconomic legacy of the conflict.

6

The Bank's Role in Rebuilding Human and Social Capital

Social Sector Rehabilitation Project

The US$26 million SSRP was approved in June 1991, more than six months *before* the conclusion of the Peace Accords. After an 11-year hiatus, the loan represented the Bank's first operation in the health sector in El Salvador and the fifth in education. The project sought to raise public expenditures in health and education, which had deteriorated even further during the conflict, and thus improve El Salvador's historically low social indicators. The approach was two-pronged. First, there was a basic services component to provide primary health care services and preprimary and primary education in some 80 of the country's poorest municipalities. And, second, an institutional development component strengthened the planning and management capacities in the Ministries of Health and Education. It also supported the development of planning, monitoring, and evaluation capacity in the social sectors in the Ministry of Planning.

The initial appraisal for the SSRP cast the project in the context of assisting the government in mitigating the social costs of adjustment and reducing extreme poverty. The appraisal called for the Bank, in its role as chair of the CG, to encourage financing for the social sectors. It also noted the government's commitment to increasing its allocation of resources to the health and education sectors from 2.7 percent of GDP in 1989 to 4.6 percent in 1994, concluding that this would "more than suffice" to cover the estimated increases in investment and recurrent expenditures generated by the project. It was also optimistic that the growth in budget allocations was feasible because of the commitment with the Bank (under SAL I) and the IMF to increase tax revenues from 7.6 percent of GDP in 1989 to 11 percent in 1994, noting an actual increase to 8.3 percent in 1990.

Expanding Basic Educational Services to Underserved Areas

Of particular interest is the "basic services" element of the education component of the SSRP. This expanded preprimary and primary education in departments with the highest repetition and dropout rates. This was accomplished by utilizing a new delivery system involving *community groups* (GCs) of parents and teachers or local NGOs. This system was inspired by a community institutional innovation born of the exigency of the conflict. The conflict prevented any public education services from being offered in many rural areas, and some communities organized themselves to hire and pay teachers directly from their own financial resources. Because of low rural incomes, however, teachers could not be maintained on a regular basis, and the quality of education was limited.

> In education, "goals to extend the coverage were surpassed by about two and a half times those established at project inception." The community-managed education component resulted in this remarkably strong performance in the education sector.

Strengthening Institutional Capacity

Under the SSRP pilot effort, GCs were responsible for hiring and firing teachers, providing and furnishing physical facilities, and administering classes. The Ministry of Education was responsible for the selection of eligible GCs and training teachers and GCs. It also was to provide for educational materials and supplementary food. Further, the Ministry was responsible for supervision and technical support for both teachers and GCs, as well as the transfer of financial resources for teacher salaries and program administration costs. The SAR (Staff Appraisal Report) observed that the government recognized the potential of this approach "not only as a means to ease financial constraints, but also as a means to alleviate some of its management constraints."[61] The Bank indicated its interest in supporting this pilot education effort even though the IADB and USAID had declined an overture from the government.

The SSRP closed December 31, 1996, virtually entirely disbursed (nine months after the planned closing date, because of slow implementation progress the first year). The project ICR found that the *basic services* components for both health and education met original project objectives. Achievement of the second component, strengthening institutional capacity, was less successful, given the uneven commitment to organizational change prevailing at the time.

The ICR is *suggestive* of improvements in basic health service coverage and status as a result of the project.

With regard to institutional strengthening, while problems were encountered in both sectors, in health they were "more complex and deeply rooted and were not significantly influenced by this project." However, in education, "the project appears to have inspired a strong modernization process in that Ministry." For the overall SSRP, the ICR provided the following ratings: "satisfactory" for assessment of outcome, Bank performance, and borrower performance ("highly satisfactory" for Bank supervision) and "likely" for project sustainability. For institutional development, weakness in the health component was offset somewhat by progress in the education component, resulting in a rating of "partial."

Basic Education Modernization Project

Over a year before the SSRP closed, in September 1995, the Bank approved a Basic Education Modernization Project (BEMP) for US$34 million, with cofinancing of US$37.3 million from the IADB. The expected closing date is the end of June 2001. A key contributing factor to the Bank's moving forward with BEMP was a report prepared by Bank staff and issued in December 1994, *El Salvador Community Education Strategy: Decentralized School Management*.[63] The report reviewed the impressive performance of the community-managed education component of the SSRP. This initiative became widely known as *EDUCO (Educación con Participación de la Comunidad*) and the GCs, drawn from parents of children served by the community school, became known as ACEs, or Community Education Associations.

The report found that students in EDUCO schools, which by 1993 covered 4.3 percent of all public basic education enrollment and 10 percent of rural enrollment in grades 1–3, performed (in first and second grade math) as well as or better than students in traditional schools. These results were achieved in spite of the deliberate concentration of EDUCO schools in areas of lower socioeconomic status. While the overall cost of the EDUCO program was slightly higher than that of the traditional school program, teacher attendance was significantly higher, and repetition and dropout rates significantly lower, in EDUCO schools.

> EDUCO had won widespread support from civil society in El Salvador and from all political parties.[62]

The overall conclusion is that the benefits of the EDUCO approach more than offset any higher cost.

BEMP provided support for further extension of EDUCO preprimary and primary schools to underserved *municipios,* as well as support for curriculum improvement. It also provided for educational materials, teacher training, and a school health and nutrition program for the poorest *municipios.* In addition, a pilot fund for testing alternative methods of providing basic education through *municipios* and non-profit private institutions was established. The project also aimed to strengthen the Ministry of Education institutionally, including its evaluation and monitoring capability. The 1997 CAS reported (see box 6.1) that by 1996, EDUCO schools accounted for about 41 percent of enrollment at the preprimary and basic (through grade 6) levels in rural public schools and about 20 percent nationwide.

According to the Vice-Minister of Education, a goal has been set to convert all rural schools to the EDUCO system through grade 9 and all urban schools to a modified EDUCO approach by the year 2000.[63]

Future Directions

Projects under preparation in the human capital area include a Secondary Education Project, approved in August 1997, and a possible activity in basic health reform, to be jointly financed with the IADB. The Bank is also considering supporting, with the IADB and the German KfW, a new Social Investment Fund for Local Development (recently created from the former Social Investment Fund (FIS) and the recently abolished SRN). The objectives of the Secondary Education Project include increasing the coverage and quality of secondary education, thus contributing to the overarching government and Bank goal of "Competitiveness for All." Elements of the EDUCO participatory approach are included in the project.[64]

The Bank's experience in education has clearly been very positive. It has also continued to be the subject of close monitoring and evaluation by the Bank's Regional Department, as well as part of a cross-country research effort led by the Bank's Policy Research Department.

In this context, the Basic Education Modernization Project has become a "flagship project" of the Bank's President and resulted in the El Salvador EDUCO Basic Education Team being one of two recipients of the Bank's 1997 Awards for Excellence.

What accounts for this success? The principle of self-management through the community-based approach has been a powerful ingredient in EDUCO's success. The ownership of community associations is reinforced by their hiring-firing authority and by their in-kind contributions to the school physical plant. Another important ingredient has been the continuity of dedicated leadership and professional teams in both the Ministry of Education and the Bank. However, with respect to the Bank's experience in health, as summarized in the discussion of the SSRP, continued caution in that sector is advised.

BOX 6.1: Letting Communities Manage Schools in El Salvador: The EDUCO Program

During the conflict, many rural areas had no public education. By 1989, national enrollment in basic education was only 76 percent, and 1 million children were not in school. In response, some communities began organizing the repair of schools and the hiring of teachers from their own resources. Recognizing the potential, in 1991 the government decided to develop a community-based approach to expand basic education in rural areas through EDUCO, supported by the Bank's Social Sector Rehabilitation Project.

Self-management makes this program distinctive. Schools are operated by parents organized in a locally elected community education association (ACE). ACE hires and fires teachers, following Ministry of Education selection guidelines, closely monitors their attendance and performance, enters into annual contracts with the Ministry, and receives funds monthly to cover teacher salaries and operating costs. The Ministry provides teaching and learning materials and teacher training programs, while the ACE provides classroom space, furniture, and school maintenance.

The overall costs of the program appear to be slightly higher than for traditional schools, but the benefits seem to more than compensate. Enrollments under the program have increased significantly, especially in former conflict areas. In 1991, 8,416 students were enrolled in EDUCO schools; by 1996 this number had grown to 168,928 students, accounting for about 41 percent of rural enrollment at the preprimary and basic levels in public schools and about 20 percent nationally. ACEs increased from 236 to 1,700, and EDUCO teachers from 263 to 3,884 over the period.

What of student performance? Despite class sizes averaging 36 students, compared with 30 in non-program schools, and students who are among the poorest, performance stands up well against traditional schools. A recent evaluation showed that test scores in language and mathematics were similar to those of students in traditional (rural and urban) schools. In some cases (math for first and second graders) scores were significantly better. Teachers in EDUCO schools use more innovative practices and expose their students to more group and pedagogical games than teachers in traditional schools. Most EDUCO teachers also have better attendance records and spend more hours in the classroom than teachers in traditional schools, as well as developing close links with the community.

The timing of the Bank's reentry in El Salvador was very propitious, if not entirely intentional, as the Earthquake Reconstruction Project prompted a reinitiation of staff visits and dialogue. A high degree of capability, experience, and continuity combined to make for an effective Bank Country Team in the crucial years just before and after completion of the Peace Accords. For a country as close to Bank headquarters in Washington as El Salvador, it may not have been essential to have a resident mission during the reconstruction period. Indeed, some believe that the Bank may have been better able to play its lead role in aid coordination and as interlocutor between the government and donors without an in-country presence. This is not a unanimous view, however, as others are convinced that the Bank's image and relationships with civil society and other donors would be enhanced by a resident mission. The Bank has been criticized for not conditioning its assistance more directly in support of the Peace Accords (so-called peace conditionality). But through its aid coordination role, policy dialogue, and operations, the Bank provided considerable direct and indirect support for the Peace Accords. To have provided more overt support in such areas as land transfer and military and police reform would have raised serious mandate issues for the Bank.

7 Special Issues

The Timing and Comparative Advantages and Disadvantages of Bank Involvement

Reengagement in El Salvador

The Bank's reengagement in El Salvador was extremely timely. To a certain extent, this was accidental, since the Earthquake Reconstruction Project provided the occasion for a reinitiation of staff visits and dialogue. But even in the absence of the earthquake damage, it is possible that the informal contacts with the pre-June 1989 Cristiani "FUSADES team" might still have been made. The subsequent negotiations and approvals of SAL I and the SSRP, as well as the organization of the CGs and the support for preparation of the NRP, were all well timed. Nevertheless, there was some risk that the peace process would unravel and the Bank's efforts could come to naught. In addition, the Bank's support for NRP preparation included some participation in damage and needs assessment, although USAID provided the bulk of this assistance.

Comparative Advantages

The Bank had a clear comparative advantage in its support of economic policy and institutional reforms in post-conflict El Salvador. It had the right combination of mandates, capacities, and characteristics for this task, which no other international actor or donor quite had. In breadth of mandate, capacity, and instruments, it was able to go beyond the IMF in providing needed structural adjustment assistance. It also was able to provide the international credibility to the Cristiani administration that the United States, notwithstanding its position as the largest donor, could not. Finally, the Bank had the expertise in this particular area that many donors, including the IADB, lacked.

Comparative Disadvantages?

It is not apparent that the Bank has supported operations in post-conflict El Salvador where it had a comparative disadvantage. While its direct financing of physical infrastructure has been modest compared with that of the IADB, the Bank's support for sector *policy and institutional reform* has been essential to the efficiency and sustainability of capital investments in infrastructure. Over the years it has developed strong capabilities in education and health, which are essential to its economic development mandate. The Bank took advantage of a *window of opportunity* in education to expand support for a promising institutional innovation. After initial mixed experience in health, it has thus far held off from providing additional support.

Using Conditionality

The SALs' conditionalities covered a wide range of macroeconomic and structural policy and institutional parameters. While perhaps overly ambitious for lower-income, post-conflict countries with weak implementation capacities, they were generally appropriate for El Salvador's strongly economic reform–oriented government.

Peace Conditionality Critique

Another dimension of conditionality has provoked criticism of the role of the Bretton Woods institutions by other actors. A recent volume of essays sponsored by the UNDP indicates that international donors, and the Bretton Woods institutions in particular, did not pursue policy conditionality strongly enough in *explicit* support of the Peace Accords—that is, what the lead author, James Boyce, terms *peace conditionality*.[66] Another critic, Anders Kompass, the El Salvador UNDP Resident Representative from 1992 to 1995, while admitting that in El Salvador "aggregate resource constraints have not been the central problem," nonetheless suggests that "in some settings it may prove necessary to relax macroeconomic stabilization targets so as to permit funding of peace programs through deficit finance."[67] While Boyce does not go this far, recognizing that the stabilization and liberalization entailed in IMF and Bank-supported government programs provided an important foundation for peace, he and his co-authors argue that the Bretton Woods institutions could have pursued *domestic* resource mobilization and *equity* of mobilization (that is, tax incidence) and shifts in the *composition* of public expenditures away from the military and in favor of health, education, and Peace Accord-mandated programs more aggressively with the government.[68]

Examination of Critique: Stabilization and Liberalization Aspects

Each element of these critiques needs to be examined in turn. First, the argument implicit in Kompass' suggestion is that the Bank and the IMF may have pushed stabilization and liberalization too far, too fast. The immediate cost of such an approach to the country as a whole is higher inflation. In El Salvador, the annual change in the CPI (Consumer Price Index), after having slowed from 24 percent in 1990 (and a wartime peak of 32 percent in 1986) to 11.2 percent in 1992, accelerated again to 18.6 percent in 1993 as a result of Peace Accord-related expenditures. By 1996, it fell below 10 percent for the first time since 1975.[69]

Even higher inflation would have further distorted saving and investment incentives and punished the poor, those least able to adjust, with relatively low money incomes and few or no appreciating assets. Moreover, with a de facto fixed nominal exchange rate, higher inflation will increase real effective appreciation, further hurting competitiveness in the economy, not least in rural areas where poverty is more serious.

However, the case for a selectively slower approach to *liberalization* may arguably have more merit. One of the long-term policy recommendations of the Boyce volume is that:

> *Producer prices for basic grains should be supported through direct subsidies, tariff protection, and/or incentives tied to appropriate environmental practices. Relative prices for basic grains, which are mostly grown by small farmers, have deteriorated drastically due to real exchange rate appreciation, residual tariff discrimination against agriculture, and liberalization that has transmitted adverse world price trends (driven in part by producer price supports elsewhere) to the domestic market. Interventions to counter these forces are justified on social, political, food-security, and environmental grounds.*[70]

The problem now is that tariffs on agricultural and other commodities have *already* been sharply reduced. To reintroduce protection could set precedents that could be extremely difficult to reverse in the future. Direct assistance to the poorest farmers of a social safety net nature and facilitating movement *out* of agriculture would be preferable to reintroducing distortions in relative prices.

Domestic Resource Mobilization Aspects

The criticism of the domestic resource mobilization effort, usually measured by the ratio of tax revenues to GDP (the "tax coefficient" or "tax effort ratio") also raises complex issues. While it is true that the tax coefficient has been historically low in El Salvador relative to other Latin American countries, the problem has been as much one of inadequate tax administration and enforcement as one of low tax rates.[71] Strengthening tax administration and enforcement is necessarily a slower task than simply raising rates. From just over 13 percent in 1986, the tax coefficient dropped precipitously to between 7.6 and 8.6 percent (depending on data sources and definitions) in 1989. As a result of tightening tax administration, the implementation of a VAT, and strong economic growth, the tax coefficient steadily increased during the early 1990s, reaching the Bank-IMF agreed target 11.0 percent by 1994 and a post-conflict peak of 12.0 percent in 1995.[72]

Notwithstanding this progress, the critics argue (and some Bank staff agree) that the Bretton Woods institutions could have pushed harder at the outset on tax effort. Boyce argues that the tax coefficient should be raised to 15 percent, which would still be below the average for the region, and that the *incidence* of taxation should be made more progressive by improving income tax collection from high-income individuals and imposing or increasing sales taxes (or tariffs) on luxury goods and on high-value property transfers.[73] The 1997 CAS admitted that despite recent improvements, public revenues were still among the lowest in Latin America because of low tax rates, a narrow base, and high rates of evasion.

The Boyce critique goes one step further by recommending that "external assistance actors, including the IFIs [international financial institutions], should be willing to provide direct assistance for the strengthening of democratic institutions. IFI lending for this purpose would translate concern for 'good governance' into action, broadening the concept of economically relevant infrastructure to include democratic institutions."

External Assistance and Expenditure Aspects

On the *expenditure* side, Boyce recommended that "external assistance actors, including the IFIs [international financial institutions], should exercise *peace conditionality* through formal performance criteria and/or informal policy dialogue. Access to external resources should be made conditional on implementation of the peace accords and related policies."[74]

There are again several elements behind this recommendation. First is the issue of military expenditures. While they have been kept at a relatively constant *nominal* level since 1990, both the *real* level and share in GDP have declined significantly, the latter from 2.4 percent in 1990 (the 1986 wartime peak was 4.4 percent of GDP) to 1.3 percent in 1993 and 1.0 percent in 1995. The Boyce volume recommends a further reduction in the next five years to a fraction of GDP similar to that of Mexico or Costa Rica—that is, in the 0.3 to 0.4 percent of GDP range—and that the resources thereby released be "reallocated to public investment, including investment in human capital through health and education programs."[75]

The February CAS noted that government spending on education and health did increase in proportion to GDP from 1.8 percent and 0.9 percent of GDP, respectively, in 1991 to 2.2 and 1.4 percent in 1995, but that this still represented a significant underinvestment in human capital. Moreover, the *combined* 1995 ratio for education and health of 3.6 percent (2.2 percent plus 1.4 percent) falls significantly short of the 4.6 percent target the government had set for *itself* a year earlier, in 1994.

Bank Approach to Peace Conditionality

How did the Bank approach "peace conditionality" in El Salvador? How *could* it have approached it? To begin with, the Bank did finance recurrent costs in the SSRP project and is financing them in the Basic Education Modernization Project. Moreover, it is financing them on a *downward sliding scale*, so that the government covers an increasing share over the implementation period of the project. Second, as noted earlier, a basic rationale for SAL II was to provide *fiscal flexibility* to the government to help it meet the unprecedented fiscal demands of the Peace Accord–mandated programs. While the link to the Peace Accords components is not stated in the SAL documents as such, both the government and the Bank shared the understanding that the fungible counterpart resources provided by SAL II would be very timely in this regard.[76] The Bank also called the attention of other donors to the financing gaps for Peace Accord–mandated programs in its statements and discussions at the CG meetings in 1992, 1993, and 1995.

Could the Bank Have Gone Further Than It Did?

Could the Bank, as Boyce recommends, have *conditioned* its assistance on the government's allocating additional resources to such Peace Accord–mandated programs as the Land Transfer Program and the creation of the National Civilian Police Force? Or could it have conditioned assistance on increased allocation of resources for the justice system in view of the current violent crime epidemic, in part a legacy of the conflict? By one interpretation, the answer would be negative.

The Bank's Articles of Agreement specify that the proceeds of Bank financing are to be "without regard to political or other noneconomic influences or considerations."[77] A line could conceivably be drawn between *conditionality* and the *financial resources* provided by a loan. But such a line is spurious since the condition determines whether the resources are to be provided or not.

A more fundamental—and legitimate—question is about the *relationship* between "economic considerations" and some "non-economic" considerations, such as the linkage between the *microinsecurity* of violent crime and such economic considerations as investment decisions.[78] However, the case for conditioning assistance on allocating adequate resources to the (now-completed) Land Transfer Program is more tenuous in view of the essentially political character of the program. Yet, had the government and at least *some* donors *not* come up with the resources to complete the program, the political *and* the *economic* consequences would have been grave, resulting in a derailment of the peace process and a reigniting of the armed conflict. The Bank's *land registration* support for the program addressed a significant technical constraint to its implementation.

Government Approach to Peace Conditionality

A related argument in favor of "peace conditionality" is that it would have created higher government *commitment* to the Peace Accord–mandated programs. However, the government initially saw the international donor community as the major source of financing for these programs, as a *quid pro quo* for having to negotiate with the rebels, disband the former National or Military Police, and create a new civil police force. In any event, by its own estimate, the government contributed *two-thirds* of the total cost of the NRP, including the Peace Accord–mandated programs. To quote from a recent evaluation of USAID assistance to the NRP:

> *The actual cost to the GOES [government of El Salvador], using its calculations, has been more than twice the amount initially contemplated. One GOES official commented to the evaluation team that if the GOES had known the total cost it would incur in implementing the Accords, it would have refused to sign them.*[79]

Question of Bank Assistance to Democratic Institutions

Finally, the Boyce volume recommends "direct assistance for the strengthening of democratic institutions." This raises, in addition to the issue of interpretation of the Bank's Articles of Agreement, the question already discussed of the Bank's *comparative advantage* or, perhaps in this case, comparative *disadvantage*. This latter issue turns, in part, on the definition of "democratic institutions." If the institutions were to relate to, for example, elections or penal institutions, it is clear that the Bank would be at a comparative *disadvantage* in providing assistance. If, however, the institutions relate to commercial law, including contract and property rights, the Bank has some comparative advantage. The Bank is already directly supporting policy and institutional reforms in this area through the Land Administration Project and the Competitiveness Enhancement TAL.

The Bank's Interaction with NGOs, Civil Society, and the Political Opposition

Growth of NGOs

One by-product of the conflict was an explosive growth in Salvadoran NGOs.[80] This growth occurred in two phases: the first during the conflict itself and the second during the first three years of post-conflict reconstruction. During the two-and-a-half-plus decades before the conflict, only 22 NGOs had registered in El Salvador. However, according to one source, during the following 12 years, the number increased by more than threefold, to 74. The growth of NGOs resulted from a range of factors, including the social cost of the conflict, the humanitarian response, widespread deterioration in living conditions, international NGO funding, and support from the U.S. government. The original sponsors or sources of NGO support also varied and included churches, donor governments or international NGOs, political parties, communities of displaced people, and groups sponsored by the government, but called "NGOs"(*ONGs* in Spanish).[81]

The second spurt of growth of NGOs occurred during the initial years of implementation of the Peace Accords, when a significant share of donor funding was channeled through NGOs. Estimates of the current number of NGOs in El Salvador range from several hundred to well over a thousand. However, now that international funding has been scaled back sharply, it is believed that many Salvadoran NGOs will disappear or merge into larger and more viable organizations.[83]

> During both of these periods of burgeoning NGO growth, the government and donors were subject to criticism from indigenous and international NGOs for viewing NGOs as "private entities to be contracted for defined services." They were also criticized for not recognizing Salvadoran NGOs as independent organizations capable of representing beneficiary communities with a legitimate participatory role in the planning, management, and evaluation of post-conflict reconstruction programs.[82]

Admittedly, some of the obstacles have their origin with NGOs themselves and include a lack of capacity and, as suggested above, strong identification with one political faction or another. However, Salvadoran NGOs are maturing, and several have developed respectable analytical and policy advocacy, as well as implementation capacities.[84]

Dialogue with the NGO Community

Reflecting the growing role of NGOs in development worldwide, as well as their substantial current role and potential in El Salvador, the Bank organized a first dialogue with NGOs and other civil society stakeholders in October 1996 in San Salvador. This was a two-and-a-half-day meeting, to which about 60 organizations had been invited and more than 30 were represented. Even before the meeting, NGOs had conveyed their views about a number of issues.

NGO Concerns

The NGOs had a number of concerns, among them the following:

- More background material should have been provided and translated into Spanish, and with more lead time.
- The initial designation of the meeting as a "consultation" suggested that there would be no follow-up and that the Bank would claim to the Board (in presenting the CAS) that civil society had been "consulted."
- The criteria for the selection of participants were questionable.
- There were tensions within the NGO community owing to opposition from some NGOs to a government-sponsored NGO bill that was being debated in the National Assembly at the time.[85]

The Bank attempted to deal with these and other concerns in various ways, including changing the name of the session from "consultation" to "dialogue" and stressing that this was seen as the beginning of a *series* of periodic meetings between the Bank and NGOs. The sessions themselves aired a number of substantive views and concerns about government and Bank strategy that all parties considered useful.

Key Process Lessons Learned by the Bank from the First NGO Dialogue

In addition, the Bank learned several lessons from the process:

- It was a mistake to focus on the product (the CAS) and not the process. Instead, the focus should have been on how to begin a process of dialogue and debate with civil society.
- The dialogue must be a *continuous* process.

- NGOs do not understand why the CAS is a restricted document and perceive a contradiction in the Bank's stated desire to involve them more fully but not to *share* the final product.
- A better job must be done of *disseminating* information about the Bank and its analytical work, and making documentation available in Spanish should be a priority.

While these observations certainly indicate that the Bank's relationships with civil society in El Salvador require more attention, the active and positive involvement of civil society in the development of education strategies should be recognized. During preparation and implementation, both the Basic Education Modernization Project and the Secondary Education Project have included extensive consultation and negotiations with NGOs and other civil society groups.

Bank Dialogue with the Political Opposition

An additional dimension of the Bank's dialogue encompasses the *political opposition*. As noted previously, owing to the nature of the Bank's governance, the Bank must tread carefully in dialogue with the political opposition. Yet the opposition can provide useful views on the Bank's relevance and effectiveness with respect to key development problems.

Strictly speaking, Bank officials can legitimately meet with the political opposition only with the *consent* of the government. One situation in which a valid case can be made for such contact, and during which it frequently occurs, is prior to elections, when it is important to be aware of possible shifts in government policy. A similar case could be made that periodic contact with the opposition is important, especially during the early period of post-conflict reconstruction, when it may not be possible to fully comprehend opposition views and concerns without direct contact.

> Touching base with the opposition is likely to be particularly important, but at the same time potentially more sensitive, during a period of post-conflict reconstruction.

The OED team spoke with representatives of NGOs and political parties in San Salvador who thought that the Bank's dialogue with the political opposition was inadequate to nonexistent. Bank staff did meet with representatives of the opposition in the early post-conflict era, both informally and in more formal settings, such as the CG meetings in 1992, 1993, and 1995. However, a key member of the Bank's country team during 1991–92, the country director, argues that it was first essential to gain the *trust* of the government in power, so that the Bank could "afford" to talk with opposition groups.[86]

The Staff and Management of the Country Team

Bank Staff and Management Effectiveness

The capability, experience, and continuity of Bank staff and management make critical contributions to the Bank's effectiveness in post-conflict reconstruction. In this respect, the Bank's experience in El Salvador has been very positive. A team that met all these requisites was in place during the crucial years just before the end of the conflict and immediately following the Peace Accords. A key element was the Country Department director, who concentrated his efforts where they really counted, as in getting the CG process off the ground in 1991 and 1992, actively encouraging other donors to participate, and at the same time effectively motivating, guiding, and delegating. This combination resulted in an effective team effort.

The Resident Mission Question

A more controversial issue is whether the Bank should have placed a *resident mission* in El Salvador just before, or during, the years immediately following the Peace Accords. Those most closely involved during that period, the Country Department director, division chief, and economist, conclude that, on balance, *not* having a resident mission—at least during the period leading up to the Peace Accords and during a year or so thereafter—was *better* for the Bank. They argue that the Bank's effectiveness was not hampered by managing the program from Washington because travel time (about four hours by direct connection) permitted frequent and responsive travel by Bank staff (the country economist visited El Salvador every month or two during 1991 and 1992). A second argument is that the Bank could play a more effective "honest broker" role, facilitating dialogue between the government and other donors and mobilizing their support. With a resident mission in San Salvador, according to this argument, the Bank might have been identified even more closely with the government.

However, other interlocutors believe that the Bank's effectiveness would have been enhanced by having a resident mission. While none of those favoring a resident mission indicated how a resident presence might have modified the Bank's operations in El Salvador, they did suggest that the Bank's *image and relationships* with civil society, the political opposition, and other donors would have been enhanced.[87] The most explicit statement of support for a resident mission came from an assessment by Bank staff of the October 1996 NGO dialogue in San Salvador. NGOs expressed the view that despite adequate Bank contact and preparation for these meetings, many of their concerns and fears could have been better addressed if the Bank had a resident mission in the country.

Cost is an obvious constraint to establishing a resident mission. Moreover, to play an effective role in policy dialogue and as an interlocutor with other donors and civil society, the resident representative should be someone with *experience and stature.* There is a Bank Regional Implementation Mission for Central America and Panama located in Costa Rica. The purpose of this office, however, is to provide limited technical support, not to carry on a policy dialogue with countries of the region on behalf of the Bank. Furthermore, the logistics of intraregional travel in Central America are such that connections are often more expeditious with the United States than among Central American countries.

The Bank's nonlending services- analytic and advisory services and leadership in donor coordination- have made a vital contribution to the reconstruction and recovery of El Salvador. Several high-quality lending operations have also made significant contributions. In stabilizing and rebuilding a post-war economy, Bank experience in El Salvador indicates that economic structural reforms should be of a scope and complexity that match the government's capacity and commitment. The Bank should pursue appropriate conditionality with a post-conflict country through its role as a leader in aid coordination, in its direct policy dialogue, and through its portfolio. The Bank should be prepared to take some risk in supporting innovative pilot activities, such as EDUCO, that have the potential to reform deficiencies in pre-conflict policies and institutions. The issues of microinsecurity and an inefficient, corrupt system of justice constitute two of El Salvador's most serious socioeconomic problems. While there may be some limits to direct Bank financial support in these areas, the Bank can raise the need to strengthen the justice and law enforcement systems in its dialogue with the government and encourage other donors to provide support in these areas.

8

Conclusions: Post-Conflict Lessons from the El Salvador Experience

The Timing, Comparative Advantages, and Disadvantages of Bank Involvement

Reentry timing

The timing of the Bank's reentry in El Salvador was propitious, but it was also not entirely intentional. It is difficult to say if, in the absence of the earthquake disaster, the pre–Peace Accords relationships between the government and the Bank would have developed as expeditiously and productively as they did. But it is clear that the subsequent early operations, including the two SALs and the Social Sector Rehabilitation Project, were well timed.

Comparative Advantages

It is also clear that the Bank pursued comparative advantages in policy and institutional reform in its programming. From the government's point of view, a senior official provided this perspective on the Bank's comparative advantage: "The Bank provided us with credibility, flexibility, and continuity of the specialists we worked with."[88]

Government Commitment and Ownership

Government commitment and ownership are strongly associated with development effectiveness. Both commitment and ownership were strong in the case of El Salvador.

Major Bank Contributions

A related overall conclusion of this case study is that financing was *not* the Bank's major contribution to El Salvador's post-conflict reconstruction. Rather, major contributions include:

- Its analytical and advisory, or *nonlending,* services
- Its *donor coordination role*
- The *quality* of the policy, institutional, and technical elements of its lending operations.

The Bank's Coordination Role and Other Donors

The donor coordination role the Bank played just before the Peace Accords and during the first few years of post-conflict reconstruction was indispensable. The holding of a CG meeting *before* the Peace Accords were signed and the commitment of experienced and capable Bank leadership to the process contributed significantly to the effectiveness of coordination. It was also important that the government gave priority to donor coordination and that it endorsed the Bank's supportive role.

Through its leadership of the El Salvador CG process, the Bank sought to mobilize resources from other donors. However, the pace of commitments was slow in the first few years after the Peace Accords. Combined with the inability or unwillingness of many donors to provide financing for some of the key programs of the Accords, this slow pace generated frustration on the part of the government. One Bank official involved at the time concluded that the Bank could have done a better job of trying to ensure that the *expectations* of the government were more realistic in this regard. Such "management of expectations" is another function of aid coordination.

Box 8.1: Lessons Learned

If the Bank is to play an effective leadership role in the coordination of post-conflict reconstruction assistance, it must establish a dialogue with other donors as soon as possible in the process of transition from conflict and ensure that the process is led by an experienced, capable, and committed manager. This role should have the clear support of the government or legitimate authorities.

The Bank should seek to ensure realistic and common expectations regarding aid on the part of stakeholders, including government, civil society, and the international community.

The Bank's Role in Stabilizing, Reforming, and Rebuilding the Economy

The main thrust of the Bank's post-conflict program in the economic sphere has been in support of policy and institutional reforms, as opposed to direct financing of infrastructure or productive capacity. This has, by and large, been appropriate and effective. The reforms supported by the two SALs were quite wide-ranging and complex. They would probably have been overly demanding for a government that lacked the capacity and commitment of the post-conflict governments of El Salvador. Even in El Salvador, the first SAL arguably covered too much in the way of reforms and components (such as privatization of agricultural marketing entities). In the energy sector, post-conflict Bank support has emphasized policy and institutional reforms that were relatively neglected in pre-conflict operations.

Box 8.2: Lessons Learned

If they are to be effectively implemented, the economic reforms to be undertaken as part of a structural adjustment program should be of a scope and complexity that match the government's own capacity and commitment. Both constraints may be particularly binding for post-conflict governments.

The Bank's Role in Rebuilding Human and Social Capital

The Bank followed its comparative advantage and seized a *window of opportunity* in supporting EDUCO, the community, self-managed education initiative of the government. This expanding initiative promises to correct and reverse some basic deficiencies in the *pre-conflict* educational system of El Salvador. The EDUCO experience provides a good example of post-conflict support going beyond *reconstruction* to address *redirection* of development.

Box 8.3: Lessons Learned

The Bank should be prepared to take some risk in supporting innovative pilot activities in the economic and human capital sectors that hold the promise of reforming deficiencies in pre-conflict policies and institutions. Such efforts imply a redirection of development. Government commitment and capability are important factors that contribute to the success of such initiatives, as is continuity of leadership.

The Use of Conditionality

Critics of the Bretton Woods institutions regarding post-conflict reconstruction in El Salvador have argued that beyond traditional macroeconomic conditionality, donors should have insisted on *peace conditionality,* conditionality in support of specific programs mandated by the Peace Accords. They argue that donors should have pushed sooner and more aggressively for an increase in the *tax effort,* for a *reallocation* of expenditures from military to social sector (health and education) purposes, and for funding of such Peace Accord–mandated programs as the Land Transfer Program and the National Civilian Police Force.

In the case of the Bank, it should be recognized that through the SALs and several other projects (SSRP, Basic Education Modernization, PRISA, and Land Administration), as well as its leadership of the CG process, resources were provided and mobilized for the Peace Accords and related objectives. Also, the IMF and the Bank (as well as USAID and the IADB) have supported and conditioned assistance on tax reform. Yet the relatively low ratios of tax revenues and health and education expenditures to GDP, and the relatively high ratio of military expenditures to GDP, compared with other Central American countries does lend weight to the argument that the Bank and the IMF could have pursued domestic resource mobilization and expenditure reallocation more aggressively than they have. However, proposed *direct* support by the Bank for such activities as land acquisition and law enforcement raises issues and problems of both comparative advantage and mandate.

Box 8.4: Lessons Learned

The Bank should ensure that through its role as a leader in aid coordination (through the CG process), in its direct policy dialogue, and through its portfolio, it pursues appropriate conditionality with a post-conflict country. Specifically, if the tax effort and the pattern of public expenditures have a direct bearing on post-conflict reconstruction, as they did in El Salvador, it is legitimate to include these parameters in the conditionality agenda. The degree to which they are pursued will depend on such factors as the extent to which taxation has been historically predatory in the country, the fragility of private investment, and government capacities in tax administration and designing and implementing public activities in such fields as health and education.

Microinsecurity and the Justice System

It is clear that the twin issues of *microinsecurity* and an inefficient, corrupt system of justice constitute two of El Salvador's most serious socioeconomic problems. They are also, to a significant degree, legacies of the 12-year conflict. What the Bank can do about these problems is not as clear, but it can do some things.

The Bank's Interaction with Civil Society and the Political Opposition

The organizations of civil society, including NGOs, constitute not only important implementing agents for local development activities, but also channels for participatory development and for better understanding the needs and concerns at the *beneficiary* level. The active participation of NGOs has made an important contribution to the effectiveness of the Bank's support for education in El Salvador.

The Bank is attempting to work more closely with NGOs in other sectors. A process of continuous dialogue between the Bank and civil society in El Salvador was initiated with the October 1996 meeting related to preparation of the current CAS. Dialogue with the political opposition is also important, but sensitive. A relationship of trust with the government is undoubtedly a prerequisite for Bank engagement in such a dialogue. Given the degree of trust the government had in the Bank in 1990–92, it is arguable whether the Bank's pursuit of a dialogue with the opposition was as proactive as would have been desirable.

Box 8.5: Lessons Learned

Given their potential both for participatory development and for delivering "development project" goods and services, which can be especially vital in post-conflict situations, the Bank should have effective communication and working relationships with civil society, including local NGOs, and- with the assent of the government- the political opposition.

The Staff and Management of the Country Team

A high degree of capability, experience, and continuity combined to make for an effective Bank Country Team in the crucial years just before and after the El Salvador Peace Accords. This team made a major contribution to the Bank's performance in a tense environment. A key element was management by a country director who concentrated on such challenges as the mobilization of support from other donors and who appropriately delegated responsibilities to other team members.

For a country as close to Bank headquarters in Washington as El Salvador, the absence of a resident mission during the post-conflict period does not appear, on balance, to have impeded the Bank's effectiveness. However, there is no unanimity of opinion on this point. A number of interlocutors, as well as Bank staff, believe the Bank's image and relationships with civil society, other donors, and even the government would have been enhanced and made more effective had there been a resident mission.

Box 8.6: Lessons Learned

While staffing decisions are important for every country program, they are particularly critical to the effectiveness of the Bank's contribution to post-conflict reconstruction. It is essential that each country team member have the requisite technical or substantive qualifications, be highly motivated, and have a demonstrated record as a good team worker. The country director must be an effective manager who can convey vision and enthusiasm and who knows when and how to guide and to delegate.

The opportunity for daily dialogue with the government, civil society, and the political opposition that a resident mission affords- which can be very valuable in a post-conflict setting- makes a strong case for (re-)establishing a resident mission, headed by a resident representative of stature, in a country where the Bank is planning to provide post-conflict reconstruction assistance. However, the possible merits of maintaining all resident staff in Washington may outweigh these considerations when the country is sufficiently close to headquarters that frequent travel is feasible (as is the case in El Salvador) and when poor intraregional travel logistics reduce the attractiveness of having a regional resident representative.

Annex
List of Persons Interviewed

Government of El Salvador

Ministry of Education

Abigaíl Castro de Perez, Vice Minister

Roberto Morán Argueta, Director, International Cooperation Projects Office

Ministry of External Relations

Hector González Urrutia, Undersecretary of Coordination and Planning

Rina Costellanos de Jarquín, Director, External Cooperation Programs

Ministry of Finance

Manuel Enrique Hinds, Minister

Ministry of Planning

Mirna Liévano de Marques, Former Minister, 1989–95

Jose Marques, Consultant

Evelyn Jacir de Lovo

Social Housing Fund

Francisco Bertrand Galindo, President

Land Bank

Jose Ernesto Mancía Salinas, Director

NGOs and Other Organizations

CARE

José Ignacio Claros, Technical Assistance Manager

FMLN Opposition Party

Ruben Zamora, National Assembly Candidate (candidate for President in 1994)

FUNDE

Alfonso Goitia, Executive Director

Roberto Rubio, Research Director

FUSADES
Eduardo Nuñez,
Chief Executive Director
Jaime Acosta,
Assistant Director,
Economic Social Studies
Mauricio Gonzalez Orellana,
Economist

German Embassy
Christian Much,
Commercial Attaché

IADB
In El Salvador:
Fadrique Otero,
Acting Representative
Marcelo J. Valenzuelo,
Sectoral Specialist
In Washington:
Fernando Manoel Costa,
Coordinator for El Salvador

PRISMA
Herman Rosa, Senior
Researcher

RCS (radio station devoted to dialogue on political-economic developments)
Salvador Samayoa,
Executive Director

SACDEL (local NGO for development and training)
Mauricio Silva,
Executive Director

UNDP
Fredy Justiniano,
Principal Adviser
Rene Hernandez,
Program Officer

USAID
In El Salvador:
Ken R. Ellis,
Acting Mission Director
Tully R. Cornick, Adviser
Mary C. Ott,
Chief, Economic Growth Office
Peter F. Krantsover, Planning and
Programming Office
In Washington:
Richard McCall, Chief-of-Staff
Charles Costello, Director,
Democracy Center (El Salvador
Mission Director, 1993–94)
Kathleen Smith, Country Officer
for El Salvador

World Bank
Ana-María Arriagada, Latin
America and Caribbean Region
Ian Bannon
Michael Baxter
Nancy Cooke
Luis Derbez
Madalena Dos Santos
Gloria Grandolini
Ulrich Lachler
Cora Shaw
Patricia Weiss-Fagen
Sally Zeijlon

Other
Gabriel Siri, Consultant (former
Director, ECLA, Mexico City)
Rainer Steckhan,
Director General, Loans,
Social Development Fund
Council of Europe,
Paris (former Country Department Director, Latin America
and Caribbean Region,
World Bank)

Endnotes

Preface

1. A commonly cited figure is 75,000. However, the Stockholm International Peace Research Institute (SIPRI), which publishes an annual report on casualties from conflict worldwide, estimates deaths from the 12-year civil conflict in El Salvador to have been in a range of 77,000–82,000.

Chapter 2

2. This section draws on a paper prepared by Mauricio Silva, a local consultant. Other sources include Acevedo (1996, pp. 19–30); Segovia (1996c, pp. 31–50; 51–72); Wood (1996, pp. 73–105); and Boyce (1996, pp. 1–17).

3. During the course of the 1932 insurrection, the military executed Augustín Farabundo Martí, who helped to found the Communist Party of El Salvador in 1929 and for whom Farabundo Martí National Liberation Front (FMLN), the guerrilla rebel movement of the 1979–91 civil conflict and the current political opposition party, is named.

4. The deterioration in conditions was demonstrated most vividly for Salvadorans and the outside world by the assassination of Archbishop Oscar Romero in March 1980.

5. The beginning of this third period is put at 1990 because it seems to mark a turning point, when peace negotiations began in earnest and conflict subsided, although peace was not formally concluded until the 1992 Peace Accords.

6. Segovia (1996b,c) provides a good description of these policy shifts and their economic circumstances and consequences.

7. This is based on data in Segovia (1996b,c), the statistical appendix of Boyce (1996), and the World Bank *1997 World Development Report* database. It should be stressed that these data are *recorded* remittances. Therefore, they probably overstate the growth of actual remittances since, with the

liberalization of the economy, the incentives for underreporting would have been reduced.

8. See, for example, data published by the United Nations Economic Commission for Latin America (ECLA), as cited in Segovia (1996c, p. 43), and the critique of such data as presented in World Bank (1994a, Annex A, para. 5 and table A-1).

9. World Bank (1994a, Annex A, para. 5).

10. Data are from the statistical appendix of Boyce (1996).

11. The first two reasons are cited by Wood (1996, p. 79). The third reason was given to the OED team by interlocutors during interviews in San Salvador in January 1997.

12. While El Salvador is not the only post-conflict country afflicted with a *microinsecurity* problem, it seems to have reached the most serious proportions there. With a homicide rate of 139 per 100,000 in 1995, El Salvador came very close to sharing with South Africa (140 per 100,000) the highest homicide rate in the world. The causes of microinsecurity are believed to be multiple and include lack of attractive employment opportunities for youths and ex-combatants, as well as continuing inadequacies in the justice system. See Kovaleski (1997, p. A22). The deportation of youth gang members, who have reproduced in El Salvador the tactics and structures honed in U.S. gangs, has also been cited as a factor.

13. The data reported in the text are based on differences between *annual monthly averages* of the Consumer Price Index (CPI). *Year-end* averages indicate an even slower inflation rate by the end of 1996: 7.4 percent from December 1995 to December 1996. The annual average data are taken from IMF's *International Financial Statistics*, and the year-end data are from the Central Reserve Bank of El Salvador.

14. The 1980s figures are from the statistical appendix of Boyce (1996).

15. Survey cited in Segovia (1996b, p. 56).

16. This is one manifestation of the so-called Dutch disease, which can, to the extent that the capital inflows are used to purchase nontradable assets, such as land, also generate inflationary pressures.

17. During an interview with the OED team in San Salvador (January 28, 1997), one government minister expressed concern that the violent crime problem in El Salvador had led one major multinational electronics firm to locate in another Central American country. While other factors may well have been more decisive in this particular decision (such as the availability of technical and professional skills), the minister's observation reveals the level of concern about microinsecurity.

18. As in many developing countries, open unemployment is but the tip of the iceberg of the employment problem in El Salvador. While open unemployment is estimated to have increased to higher than 8 percent in 1997, owing to the slowing of economic growth, low-productivity employment in the informal sector undoubtedly represents a much larger proportion of the economically active population.

19. For further discussion Segovia (1996b, pp. 60–61).

Chapter 3

20. This information is drawn from the Bank reports database.

21. Bank evaluations found that the energy sector before 1989 was "characterized by a high degree of government intervention and an inadequate institutional framework."

22. The evaluation information on these projects is drawn from OED data.

23. Alexander Segovia, a Salvadoran economist, has criticized this CEM for neglecting poverty and social issues (p. 44). Published by the Bank in April 1986, the CEM did not emphasize such issues in its analytical section, but did recognize the existence of the conflict as well as poverty. Preparatory work beginning in 1989 for the Social Sector Rehabilitation Project approved in 1991 did focus on the social sectors. The Bank issued a poverty assessment for El Salvador in 1994; see World Bank 1994a.

24. Observations in this and the following subsections draw on a paper prepared for the OED team by Jose Marques, a local consultant. They also draw on interviews with several Bank staff involved with El Salvador at the time.

25. The conflict was one of several factors that contributed to a delay of two years in implementating the Earthquake Reconstruction Project. See World Bank 1996b, paras. 26–38.

26. FUSADES received US$100 million from USAID over the 1984–92 period. See Segovia (1996c, p. 42).

27. According to Segovia, "at least 17 business leaders and persons linked with that institution [FUSADES] became part of the new government" (1996b, p. 55).

28. See World Bank (1990). According to Bank data, SSRP total project cost came to about US$60 million, with the Bank loan accounting for just less than US$26 million, the government for about US$30 million, USAID for just less than US$3 million, and the United Nations Children's Fund (UNICEF) for just over US$110,000.

29. In addition to the SAL and the Social Sector Rehabilitation Project, a Power TAL was approved for US$11 million during this period (in July 1991).

30. See, for example, the previously cited volume edited by Boyce (1996). Boyce and other authors in this volume give credit to USAID assistance in helping to develop the NRP but are silent with respect to the Bank.

31. A TAL for US$2.5 million was approved at the same time to support studies, policy analyses, and the development of action plans complementary to SAL II, as well as the preparation of further restructuring actions related to public sector modernization. The closing date for the TAL was June 30, 1996.

32. The CEM and PSA were published together in a "red cover" volume. See World Bank (1996, p. 80).

33. *The Economist* (1997, p. 44) reported on a Bank-sponsored conference held in Rio de Janeiro on the subject of violent crime in Latin America.

Chapter 4

34. The OECD countries at the meeting were Canada, France, Germany, Italy, Japan, The Netherlands, and the United States.

35. World Bank (1991a).

36. An example of this lack of recognition is Boyce (1996). In the seven references to CG meetings in this volume, the role of the Bank is mentioned only once, and then simply as convener of the April 1993 CG meeting. The critical first CG meeting in May 1991 is briefly mentioned, but without reference to the Bank (Wood 1996, pp. 86, 91).

37. One Bank staff member recalled that some European donors who were particularly suspicious of the government had insisted that the FMLN, which was not represented at the May 1991 CG meeting, be invited as a condition of the donors' participation in this meeting. For a discussion of the financing situation for Peace Accords and NRP implementation at the time of the 1992 CG meeting, see Wood (1996, pp. 88–89).

38. Although several other countries had indicated an interest or intention in participating, the Bank was ultimately successful in obtaining only one cofinanced contribution to SAL II—DM 20 million from Germany. For a more detailed discussion of the financing status of the Peace Accords and the NRP at the time of the 1993 CG meeting, see Boyce, (1996, pp. 130–35). Some of the other observations made in the text above come from a paper by Belt and Palomo (1994, p. 9). They refer to a nonproject loan of US$30 million, but not part of the SAL II cofinancing package from Taiwan.

39. Republic of El Salvador (1995).

40. One issue that emerged at the meeting related to the government "Social Investment Fund," which was of particular concern to two of its donor supporters, the IADB and a German bilateral program. Through a combination of government and donor financing, the remaining Peace Accords financial gap was apparently covered. (These observations and those in the text are based on an interview with a Bank staff member who attended the June 1995 CG meeting.)

41. De Soto and del Castillo (1994, pp. 69–83). Specific page references to quotations from this article are given in the text. The volume edited by Boyce (1996) also constitutes, in part, a criticism of the coordination role of the Bretton Woods institutions. But the main thrust of the Boyce critique is that the Bretton Woods institutions did not sufficiently employ what Boyce terms "peace conditionality" in their negotiation with the government. This contention is discussed in more depth under conditionality in Chapter 7.

42. See World Bank (1989, Article III, Section 4). In other post-conflict settings, where the government authority had not yet secured Bank membership, whether because of arrears issues or because it did not yet have the status of a sovereign state, special arrangements with member countries have been worked out to permit negotiation of operations. Such arrangements were established for Bosnia and Herzegovina, Eritrea, and the West Bank and Gaza.

This was clearly not necessary in El Salvador, where the government had remained the legitimate governing authority, although with a tenuous hold, and even loss of authority, in some parts of the country during the 1980s.

43. A representative of the FMLN first formally met with Bank officials in Washington at the end of January 1992, two weeks after the Chapultepec Peace Accords signing. The FMLN was also represented at the three subsequent CG meetings, and Bank staff have met informally with political opposition leaders on occasion during missions in El Salvador. The question of whether Bank dialogue with the main political opposition could have usefully been *more extensive* is raised in Chapter 7.

44. Apparently the process was so closed that not even the UNDP had any access to the higher-level negotiations (interview in San Salvador, January 28, 1997). While not the focus of this case study, it is of interest to note that the relationships between the U.N. and the Bretton Woods institutions at the negotiating level in the Guatemala peace process were much closer than in El Salvador. This greater degree of contact at higher levels, which was initiated by the U.N., came about, in part, as a result of "learning" from the El Salvador experience.

45. Interview with Mirna Liévano de Marques, El Salvador Minister of Planning from 1989 to 1995, January 30, 1997, San Salvador.

46. Interview with Charles Costello, USAID El Salvador Director from 1993 to 1994, January 21, 1997, Washington, D.C.

47. Belt and Palomo (1994, pp. 10–11).

48. This view was expressed by Salvador Samayoa, who was part of the FMLN negotiating team (interview January 30, 1997, San Salvador).

49. These assessments of the UNDP team and its report were made by a local consultant who had assisted the government with NRP preparation during this period and who was interviewed in San Salvador on January 28, 1997.

50. A strong endorsement of the U.N. role in this respect, as well as in other aspects of the peace process, is given in Belt and Palomo (1994, pp. 11–12).

51. Disbursement delays during the first year of the project were the result of inexperience and management problems in the Ministries of Health and Education, which, when resolved, permitted the UNDP to play an effective role as procurement agent. *Op.cit.*, para. 11.

52. While USAID provided support for the Land Transfer Program and some aspects of the justice system, an entity of the U.S. Department of Justice, the International Criminal Investigation Training Program (ICITAP), administered assistance to the National Civilian Police.

Chapter 5

53. The nutrition pilots had been identified in the October 1989 mission that produced the report leading to the SSRP. The Bank decided to include these pilots in SAL I rather than in the SSRP, to give the SAL an explicit social component.

54. Information and assessments of SAL II are drawn from World Bank data as well as from interviews with Bank staff.

55. A paper, “Issues in Adjustment Lending,” prepared by Development Economics, was discussed by the Board in January 1996. A revised version, reflecting the discussion, was resubmitted to the Board in April for approval on a nonobjection basis. The cover memorandum from the President highlighted paragraph 24 of the paper, which recommended that assessment of the fiscal impact of the policy reforms and the means for financing that impact be the basis for adjustment lending. The relevant portion (para. 44) of the 1992 Operational Directive 8.60, “Adjustment Lending Policy,” is being modified to incorporate this recommendation.

56. The evaluation found borrower and Bank performance “satisfactory” and sustainability “likely.” Overall achievement of objectives was judged to be “partial,” because in three of the seven components, achievement of expected impacts was limited. Overall outcome was nonetheless considered to be “satisfactory,” since financed activities were key to securing the government’s ability to comply with conditions for the SAL II second tranche release, and TAL-supported activities and outputs equipped the Government with the foundation for building future reform strategies.

57. Interviews with Bank headquarters staff.

58. World Bank (1996d, para. 1.24). For a discussion of other factors delaying the Land Transfer Program as well as the roles of USAID and the European Union in providing assistance to the program, see GAO (1994, pp. 10–12).

59. It was thought that land registration would provide landowners—particularly the vast majority of smallholders who lack clear tenure—with the security that will enable them to sell or rent at fair market prices, and pass on their holdings as inheritances. Improving tenure security would also increase smallholder access to credit, raising incentives to invest and to manage land properly.

60. The information is drawn from numerous Bank and IMF sources.

Chapter 6

61. World Bank (1994b, para. 1.2).

62. The widespread endorsement from all quarters of society was confirmed in interviews conducted by the OED team in El Salvador. For another positive assessment of the EDUCO initiative, see Granzow (1997, pp. 4–5).

63. World Bank (1994b). The results of the EDUCO schools reported in the text are taken from the Executive Summary of this report. UNICEF also provided early financing for the EDUCO pilot program.

64. Interview with Abigaíl Castro de Pérez, Vice-Minister of Education, San Salvador, January 31, 1997.

65. World Bank (1991b, pp. 2, 9–10).

Chapter 7

66. See Boyce (1996, pp. 15, 140–150, and 281).

67. Kompass (1995, p. 2).

68. See Segovia (1996a, pp. 112–26) and Boyce (1996, pp. 112–26 and 144-48), for explicit critiques along these lines. Kompass (1995) makes the same critical arguments regarding domestic resource mobilization and expenditure composition.

69. These inflation figures are based on annual monthly averages.

70. See Boyce (1996, p. 283)

71. For example, in 1989 the Bank estimated that tax evasion accounted for at least 40 percent of the tax collected.

72. Tax information drawn from IMF and Bank sources, including the February 1997 CAS. The tax coefficient stopped increasing and probably declined somewhat in 1996 with the economic slowdown.

73. Boyce (1996, pp. 280–81). Substantial revenue generation from direct taxes on income can be a protracted process since strong and sophisticated tax administration capacity is required to counteract the ability of the wealthy to avoid and evade income taxes. In view of their being easier to administer and enforce, higher *indirect taxes* (sales taxes or the VAT) on luxury goods may yield more revenue in the short term than higher direct taxes, especially where tax administration capacity is relatively weak to begin with.

74. Boyce (1996, p. 281), italics added.

75. Boyce (1996, p. 281). The 1993 and 1995 data are from Segovia (1996a, p. 119). The validity of Costa Rica as a basis for comparison can be questioned, as it has no armed forces.

76. Based on OED interviews in El Salvador and Washington. Boyce also recognizes this linkage and further suggests that Germany's decision to contribute cofinancing to SAL II "was reportedly prompted by this consideration" (Boyce 1996, p. 138). GAO proposed that the local currency proceeds from Bank and IADB loans could be used by the government to support Peace Accords programs, noting that the government has "wide discretion" in using local currency generated from loans obtained by the Bank and the IADB (GAO 1994, pp. 7–8).

77. World Bank (1989, Article III, Section 5 [b].) Also relevant is Article IV, Section 10, which states: "The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or any members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes stated in Article I." The Articles of Agreement for IDA contain identical passages.

78. A somewhat analogous issue is that of corruption. The expanding Bank "anti-corruption initiative" under the *Strategic Compact* thrusts the Bank into an arena where economic and political considerations are intertwined. The September 1997 Anticorruption Guidelines ("The World Bank's Role in Helping Countries Combat Corruption: Guidelines to Staff") recognize the politically sensitive nature of the topic, but "because of corruption's negative

economic impact," conclude that "the Bank has the mandate to address it as a development issue within its Articles of Agreement." The Guidelines caution that "in addressing corruption, the Bank's work should be based solely on economic considerations and not be influenced by political concerns, in keeping with its Articles of Agreement" (para. 5).

79. Management Systems International (1996, p. 2). This tends to add weight to the previously cited views that the introduction of the *cost* issue into the Peace Accords negotiations would have bogged them down.

80. The previously mentioned paper by Mauricio Silva was helpful in formulating the issues for this subsection.

81. Data and categories are drawn from a 1991 paper by Victor González as cited by Solís and Martin (1996).

82. For example, see Solís and Martin (1996, pp. 53–56).

83. Interview with Tully Cornick, USAID El Salvador, February 3, 1997.

84. The OED team met the representatives of several such organizations during its visit to El Salvador.

85. The bill was subsequently passed and signed into law by President Calderón Sol in December. Some modifications were made in response to NGO objections, but there is still concern that the law will be used against NGOs in an arbitrary manner. This concern has been conveyed to the Bank on behalf of Salvadoran NGOs by Inter-Action, a U.S. NGO membership organization .

86. Communication from Rainer B. Steckhan, April 30, 1997.

87. One interlocutor thought that a specific instance of misunderstanding and tension between the Bank and USAID over the Land Administration Project might have been avoided had there been a resident mission (interview, San Salvador, February 3, 1997). One Bank staff member reversed the above-mentioned "honest broker" point, arguing that by providing greater familiarity with the Bank and its procedures, a resident mission would have *enhanced* its "honest broker" role. This interlocutor also noted that this argument was used as one rationale for opening the current resident mission in Guatemala.

Chapter 8

88. Interview with Abigaíl Castro de Pérez, Vice-Minister of Education, San Salvador, January 31, 1997.

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