Results Profile: El Salvador

Overview
El Salvador was characterized by a period of strong economic recovery - particularly in the early 1990s. Yet, during the recent global crisis, El Salvador was seriously affected due to its strong linkages with the U.S. economy. As a result, the Salvadoran economy suffered a historic recession and poverty gains were partially lost. Through lending and non-lending operations, the International Bank for Reconstruction and Development (IBRD) has accompanied this process and continues supporting the country’s economic and social agenda.

Challenge
The recent economic and financial crisis has severely affected El Salvador’s economic performance, causing the reversion of past years’ achievements. By 2008, overall poverty increased to 42.3 percent (compared with 35.5 percent in 2007), close to the levels observed in 2001. As of the end of 2009, around 50,000 formal jobs had been lost. El Salvador faces tremendous challenges in terms of accelerating economic growth, improving opportunities for the poorest and most vulnerable population and the strengthening of public finance. Moreover, crime and violence, which have worsened during the last year, has become one of the major challenges for the country.

Approach
Due to political polarization that limited consensus regarding new borrowing, IBRD’s contribution and support to the country has been irregular in the last decade. However, IBRD, through its Country Partnership Strategy (CPS) for the fiscal years (FY) 2010-2012, has recently renewed and reactivated its project portfolio. The overall aim of the CPS is to support the government of El Salvador in addressing poverty and inequality through three strategic objectives: (i) strengthen fundamentals for economic recovery by addressing macro and institutional vulnerabilities; (ii) strengthen social service delivery; and (iii) increase economic opportunities, particularly for the poor.

As of August 2010, IBRD’s lending portfolio in El Salvador
consists of eight active projects with total commitments of US$866 million in various sectors including, health, judicial modernization, public finance and public administration. The envelope for the CPS period FY10-12 is estimated at US$650 million. A first set of operations under the CPS was prepared and delivered during FY10 consisting of a US$100 million Development Policy Loan (DPL) and three investment operations for US$150 million. IBRD also manages a trust fund portfolio of US$1.4 million, supporting programs for violence prevention and strengthening of fiscal management.

Results

Designed to be disbursed in two tranches, the US$450 million Public Finance and Social Sector Development Policy Loan has supported continued institutional and social sector reforms and has directly assisted the government in addressing fiscal issues by providing critical support to navigate through the very difficult crisis period. Through this operation, the government has been able to partially finance its Anti-Crisis Plan. Specific results from the implementation of this DPL were reported as follows:

- Expansion of fiscal space through the implementation of a new tax on vehicles and the introduction of an ad-valorem tax on alcoholic beverages. As of July 2010, tax collection from alcoholic beverages (specifically from beer) has increased by 21.1 percent compared to 2009. The new tax on vehicles allowed the government to collect US$4.4 million by July 2010.

- Improvements on the targeting of public spending. From a baseline of US$325 million in 2008, untargeted public subsidies have been reduced to US$190.7 million (by July 2010).

- Expansion of the Conditional Cash Transfer Program “Comunidades Solidarias.” The coverage of the program has been expanded from the 77 poorest municipalities in 2008 to 100 municipalities by May 2010, benefiting a total of 100,000 families.

Partners

IBRD in El Salvador has maintained close partnership with the donor community, specifically the International Monetary Fund (IMF) and the Inter-American Development Bank. IADB discussed its CPS with the donor community, receiving important contributions. Through the Civil Society Funds, the Bank has also created a solid relationship with non-governmental organizations (NGOs), foundations and other civil society entities.

Toward the Future

IBRD has been committed to continue supporting El Salvador’s economic and social agenda. Looking forward, future Bank interventions will focus on structural and strategic issues rather than responses to short-term needs as agreed for the crisis period. Reengagement in the health and education sectors as well as in the mitigation of risks associated with natural disasters will become the next priority for the Bank program in the country.