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0450

SM/99/5

January 11, 1999

To: Members of the Executive Board

From: The Secretary

Subject: **Report on Meeting of the Consultative Group for the Reconstruction and Transformation of Central America**

Attached for the information of the Executive Directors is a report on the meeting of the Consultative Group for the Reconstruction and Transformation of Central America, held in Washington D.C. on December 10 and 11, 1998.

Mr. DaCosta (ext. 38502) is available to answer any questions relating to this report.

Att: (1)

Other Distribution:
Department Heads

Report on Meeting of the Consultative Group for the Reconstruction and Transformation of Central America

Introduction

The meeting, which was convened by the Inter-American Development Bank (IDB), took place over the period December 10–11, 1998 in Washington D.C., and was attended by participants from 50 donor countries as well as from regional and multilateral organizations. The objectives of the meeting were to bring donors up-to-date on estimates of the extent of the damage to the affected countries (El Salvador, Guatemala, Honduras, and Nicaragua) and on the progress being made in emergency relief and reconstruction; and seek initial commitments of assistance on the basis of preliminary estimates of the countries' priority needs and financing requirements. Work in these areas is continuing, and more definitive estimates of needs, as well as firm commitments on donor assistance, will be presented at a follow-up Consultative Group meeting scheduled to take place in Stockholm in May 1999.

Summary of presentations

The presidents of Costa Rica, El Salvador, Honduras, and Nicaragua, and the vice-president of Guatemala noted that the hurricane occurred at a time when the region was beginning to reap the rewards stemming from the end of civil wars, the re-establishment of democracy, the implementation of sound economic policies, and closer economic integration. Based on these advances, there was growing confidence in the social and economic prospects for the region. The presidents observed that the most significant risk to the region in the aftermath of the hurricane was the fact that the gains in the above-mentioned areas could be eroded if attention to the urgent social needs and prompt implementation of reconstruction plans were delayed because of a lack of external financing. Such delays could lead to a cycle of instability, uncertainty about the future, and economic decline.

The heads of state thanked the international community for the rapid and generous response to the disaster, and noted that the main priority in the affected countries was the need for the continued flow of concessional resources and debt relief to help provide continued emergency assistance, housing for the homeless and the displaced, and the rehabilitation of infrastructure. At the same time, they emphasized that financial assistance alone could not ensure sustained growth and a reduction in poverty. Success in these goals would require continued sound economic policies complemented by reforms aimed at removing the constraints to faster real GDP growth, and further progress in opening up the regions' economies to free trade. The heads of state expressed their firm commitment to these policies, and President Rodriguez of Costa Rica, in particular, stressed that it was essential that Central American countries obtain better access to industrial country markets.

Donors expressed full support for the governments' efforts to address the immediate needs of emergency relief and the task of rehabilitating the extensive damage to the region's infrastructure. Donor assistance would include direct support in the form of grants, debt relief, and technical assistance, including assistance in designing broad-based reconstruction plans. Donors stressed the need for transparency and full accountability in the governments' management of external assistance, and for strengthening the democratic process through greater participation of civil society, nongovernmental organizations, and the private sector in the formulation of reconstruction plans. Also, the opportunity should be taken to strengthen key institutions such as the judiciary. In the area of economic policies, it would be important to continue to implement reforms aimed at achieving more efficient and streamlined public sectors, and at strengthening the financial sectors. In addition, many donors stressed the need for measures to halt deforestation and improve the management of marginal lands in order to mitigate the effects of future natural disasters. Donors acknowledged and welcomed the commitment of the governments to the above-mentioned objectives.

Summary of donor commitments

In the session on donor pledges, a number of countries indicated broad orders of magnitude for possible assistance at a regional level, noting that firm commitments on a country-by-country basis would be made at the time of the Stockholm meeting, following a more careful assessment of needs and discussions with governments on specific reconstruction projects. Preliminary estimates by the IDB of the amount pledged at the meeting were in the order of about US\$6 billion, but this figure included significant amounts of commitments which had already been made prior to the hurricane and which were being redirected to reconstruction projects, as well as possible debt relief. The IDB staff is refining these estimates, particularly those relating to new commitments by bilateral donors. With respect to the international financial institutions, the IDB announced that its assistance would include US\$370 million in new commitments for emergency relief on concessional terms by end-1998, and a lending program totaling US\$2.5 billion over the next five years to finance reconstruction projects. The World Bank announced that it would commit about US\$1 billion in new IDA credits to Honduras and Nicaragua over the next several years, including immediate emergency credits to these countries, amounting to US\$200 million and US\$50 million, respectively. In his presentation, the Managing Director noted that the Executive Board of the Fund had already approved quick-disbursing emergency assistance of US\$66 million to Honduras, and that this would be followed in early 1999 by additional assistance in the context of a new ESAF-supported program. He noted also that Fund support to Nicaragua and El Salvador would be made available under ongoing financial programs, and that emergency assistance for Guatemala was being discussed with the authorities.

In the area of debt relief, donor countries expressed support for the recent decisions of the Paris Club to (i) allow a deferral of debt service payments by Honduras and Nicaragua coming due over the period 1999–2001; (ii) grant debt relief to Nicaragua on Lyons terms as soon as the country is declared eligible for assistance under the HIPC Initiative; and (iii) allow debt relief to Honduras on Naples terms following agreement on an ESAF-supported program.

During the meeting, it was announced that pledges to the Central America Emergency Trust Fund (CAETF) administered by the World Bank and aimed at assisting with service payments on official debt to multilateral institutions, had reached US\$100 million. Regarding the HIPC Initiative, several countries expressed support for granting eligibility to Honduras, while others indicated their willingness to review carefully Honduras' possible eligibility based on the forthcoming debt sustainability analysis.

