



**Office of Evaluation and Oversight, OVE  
Inter-American Development Bank**

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*RE-255*

*Analysis of Research  
Department's Activities  
and the Work of the Bank*

*Economic Assessment  
Reports (EARs)/High Level  
Consultation Meetings  
(Encerronas)*

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## *Abbreviations*

<b>CP</b>	<b>Country Paper</b>
<b>CRG</b>	<b>Management Review Committee</b>
<b>DAS</b>	<b>Social Agenda Dialogue</b>
<b>EAR</b>	<b>Economic Assessment Report</b>
<b>GDP</b>	<b>Gross domestic product</b>
<b>IMF</b>	<b>International Monetary Fund</b>
<b>IPES</b>	<b>Economic and Social Progress Report</b>
<b>OECD</b>	<b>Organization for Economic Cooperation and Development</b>
<b>PDP</b>	<b>Policy Dialogue Paper</b>
<b>PPMR</b>	<b>Project Performance Monitoring Report</b>
<b>RES</b>	<b>Research Department</b>
<b>SO2</b>	<b>Social Programs Division</b>

## *Executive Summary*

### **A. Dialogue, high-level consultation meetings (*encerronas*), and country programming**

The Bank engages in dialogue with the countries by means of various instruments for strategic discussion, such as pre-programming missions, portfolio review, Social Agenda Dialogue (DAS), seminars, and workshops on specific subjects. Generally, these activities are carried out by Regional Operations Departments with support from other departments. Moreover, in the specific case of Region 2, a Policy Dialogue Paper (PDP) is drawn up and discussed with the country during the respective administration's last year. The dialogue consensus with the country is spelled out in the country paper, which establishes strategy and projects.

In 1996, RES implemented a new and potentially powerful instrument for dialogue known as Economic Assessment Reports (EARs). The reports are presented at the high-level consultation meetings (*encerronus*), which are held at the request of the countries and/or the Regional Operations Department. EARs are not papers in the classic sense of the term, in that they are very large electronic files (Powerpoint) containing short statements and a great deal of information. In 80% of those reviewed, the presentations consisted of 150 to 225 slides, but without a written introduction, summaries, or conclusions.

EARs are presented to the countries' policymaking authorities at the *encerronas*, closed-door meetings with the countries' policymakers. The purpose of *encerronas* is to discuss macroeconomic policies and strategies in the countries' different economic and political cycles. The meetings are generally a half-day to a day long, but occasionally longer. Between 1996 and August 2000, RES held 18 *encerronas*.

### **B. Objective and scope of the study**

The principal objective of this study is to ascertain the impact of EARs on country papers, the Bank's operations program, and the countries' adoption of RES proposals. To achieve this objective, a comparative qualitative analysis of the *encerronas* for the various countries was prepared, the content of the supporting EARs was reviewed, and a series of meetings was held with the main officials involved in the *encerronus*. To study the interaction between content and the discussion of issues at the *encerronus*, certain specific cross-cutting issues are for all the countries were selected on the basis of two complementary criteria: their repetition at all the *encerronus* and their obvious importance for establishing the countries' development strategies. The issues were: (a) privatization and infrastructure; (b) exchange policy and dollarization; and (c) decentralization.

All those involved in this process cooperated fully, and RES made commendable efforts to contribute its view on the observable impact of the *encerronus*, which proved extremely valuable for the assessment.

The study covers 10 countries in which *encerronus* were held between 1997 and August 2000, based on the documents provided by RES. Of these countries, seven are in Region 2, one in Region 1, and three in Region 3 (Group C and D countries).

OVE hired two independent consultants with different academic backgrounds to conduct the study; the findings of their reports are reflected in this document. The consultants were: Fernando Navajas (Chief Economist of FIEL [Foundation for Economic Research on Latin America]) and Mariano Laplane

(Coordinator of Postgraduate Studies of the Institute of Economics, UNICAMP [Campinas State University]).

### **C. Main problems identified**

Review of the issues taken up at the *encerronas* points to the preponderance of macroeconomic and structural reform issues, such as fiscal policy, financial policy, exchange policy, trade, infrastructure and privatization, labor policy, education, and decentralization. Generally, the predominant style is to suggest policies or reforms, especially in connection with the most common macroeconomic issues.

All the issues addressed at the *encerronus* have, to some extent, been reviewed in previous studies (whether conducted by **RES** or third parties) that combine analysis and empirical evaluation of the hypotheses. In several cases, the findings were quite solid, while in others the evidence was preliminary or incomplete and depended on the specific conditions of each economy.

However, in some cases the studies were used to foster overconfidence in a certain approach, using language designed to achieve almost a mass marketing effect. The arguments are “oversold” almost continuously as a result of the intentional or unintentional attempt to push reforms.

The study showed that the most problematic aspects of the presentations were:

- a. The underlying factors or elements in each type of sector or strategy were not fully developed, resulting in a view that is not very critical and in excessive unconditional reiteration of certain predetermined policies.
- b. Somewhat related to the above, the specificities and diagnosis in each country were not clearly set out, in some cases due to insufficient use of information, even when the information was available.
- c. In some cases, selective use of information was made.

### **D. Main conclusions**

In principle, the *encerronus* could be a powerful tool for the Bank’s dialogue with its member countries. But the EARs and *encerronus* have proven relatively inefficient in the two natural RES markets, the Bank and the countries’ policymakers. In other words, they do not work well as instruments to either sell macroeconomic policy strategies to the countries or to provide support and feedback for country programming, where their potential is negligible, as recognized by **RES**.

Two types of problems have been identified in the content of *encerronas*. There is a lack of recognition of country specificities and excessive emphasis on the dissemination of reforms and uncritical support for them without the justification necessary based on a knowledge of the country’s situation. These problems appear to be the grounds for rejection of the recommendations by the country authorities.

Analysis of the principal problems identified in the qualitative evaluation of the *encerronas* led to two conclusions. First, the meetings are prepared without due consideration of all the factors or elements underlying the strategies. This shortcoming makes it difficult to understand all the consequences involved in the proposed strategy and contributes to inefficient, incomplete presentation of it. And second, the presentation focuses on the merits of the proposed strategy’s technical and ideological components but ignores its recipients and ultimate beneficiaries: the citizens of the respective country, whose interests are subordinated to the hypothetical merits of the proposed strategy.

Lastly, serious operating and institutional coordination problems were identified between RES and the Regional Departments in *encerrona* preparation, reflecting inadequate integration of RES and operations activities.

## **E. Main recommendations**

Consideration should be given to whether a new instrument should be devised to replace the EARS-*encerronas* that can meet the objectives RES originally established for them. RES' recognition of the minimal impact on programming should be more than sufficient to trigger sober reflection on this point. However, in the hypothetical case that this instrument is retained, a set of measures would have to be taken to enhance its operating efficiency and to make it an activity of the Bank as a whole, rather than a single department.

Notwithstanding the need for RES, as an economic analysis tool—not directly linked to the Bank's operational work—to maintain a degree of independence conducive to reflection and analysis beyond the countries' cyclical demands, it is necessary to devise and implement measures, instruments and channels through which RES' intellectual and creative efforts can add value to the operations carried out by the regions. The regions could then provide feedback to RES with information from the field that will help RES conduct analyses that are better adapted to the specific circumstances of each region and country.

To ensure that the *encerronus* are truly an instrument of the Bank and enhance its efficiency, Management should draw up a document clearly setting forth the purpose, objectives, and evaluation criteria to be used in future exercises of this type. This report should be formally approved by Management and submitted to the Board of Directors for consideration. The specific recommendations are described on pages 22 to 25 of this report.

## I. Introduction

1.1 At the request of the Research Department (RES), based on the need to evaluate the Bank's nonfinancial products, the Office of Evaluation and Oversight (OVE) conducted this study on one of the instruments used by RES in performing its functions, specifically Economic Assessment Reports (**EARs**) and their means of dissemination, the high-level consultation meetings known as *encerronas*.

1.2 The mission of **RES**, which is headed by the Chief Economist of the Bank, is to enrich the knowledge base that feeds into the policy agenda of the Bank and the member countries, in order to achieve sustainable development.<sup>1</sup>

1.3 To achieve its objectives, **RES** has developed various products and instruments, one of which is EARs, first used in 1996 and then at the request of the countries and/or Regional Departments. **EARs** are presented to the respective country authorities at *encerronas*, which are closed-door meetings with a country's policymakers, to discuss macroeconomic policies and strategies in the country's various economic and political cycles. From 1996 to August 2000, **RES** held 18 *encerronas*.<sup>2</sup>

## II. Description of Economic Assessment Reports (EARs) - Encerronas

2.1 EARs are not papers in the classic sense of the term, in that they are very large electronic files (Powerpoint) containing short statements and a great deal of information. In 80% of those analyzed, the presentation consisted of 150 to 225 slides, but without a written introduction, summaries, or conclusions.

2.2 EARs are presented to a country's policymakers authorities at the *encerronas*. The meetings are generally a half-day to a day long, but occasionally longer.

2.3 To date there is no written document establishing EAR methodology. The only available reference containing a definition of **EARs** can be found in a document entitled "System of Performance Indicators-Research Department" (GN-2107), dated 25 May 2000. According to that document: "These reports are intended to help in the preprogramming of the Bank's country activities. Each report will identify development challenges and offer a preliminary diagnosis as to policy areas that would warrant the attention of country authorities. It is hoped that these preliminary assessments will be useful to the authorities as they frame their own development strategies, and to help work out agreements between the country and the Bank on action priorities and areas of support."

2.4 *Encerronas* are not regulated at all either. And no documents are systematically prepared summarizing the issues addressed and the outcome of the dialogue as a result of these meetings.<sup>3</sup>

2.5 A reading of the issues addressed in **EARs** as a whole—which is the object of this study—shows that they are intended to foster strategies for macroeconomic adjustment and structural reform on the eve of changes of administration through a cross-cutting presentation based on a comparison with other countries in the region or subregion. They are therefore designed to have a substantial impact on

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<sup>1</sup> See Annex I for a more detailed description of RES activities.

<sup>2</sup> As of August 2000, the following *encerronas* had been held: five in the Dominican Republic, three in Panama, two in Guatemala, two in Costa Rica, one in El Salvador, one in Honduras, one in Paraguay, one in Venezuela, one in Ecuador, and one in Trinidad and Tobago.

<sup>3</sup> With regard to this last aspect, a new trend emerged in 2000, when the *encerronas* in Guatemala and the Dominican Republic ended with reports being drawn up.

country paper content<sup>4</sup> and country programming, even when the process involves certain nuances for the respective Regional Operations Department of the Bank.

**2.6** EARs influence Bank programming (country papers and loan approvals) mainly in two ways. First, the proposals they put forward have a potential impact on the government authorities, who may adopt the suggested strategies and raise them during the programming process, when the country and the Bank agree on priority actions. Secondly, since **EAR** preparation is coordinated with country programming in terms of issues and focus, the two processes should yield similar results.

### ***III. Objectives and Methodological Guidelines for EAR Evaluation***

3.1 General objectives of the evaluation were to: (i) identify EAR impact on Bank programming, which consists of country papers and loan approvals after *encerronas*, and (ii) **EAR** impact on the adoption by the respective countries of the strategic policies proposed.

3.2 The general guidelines for the methodology used were:<sup>5</sup>

- Conduct a qualitative analysis of 10 EARs with respect to their format, topics, relevance, and the consistency of the proposals, on the basis of a comparative table. Select certain topics that recur in most of the EARs studied for more detailed analysis: dollarization, privatization, and decentralization.
- Conduct a comparative qualitative analysis of the issues addressed at *encerronas*, the proposals presented in the EARs, country papers, and operations approved after the *encerronas*.
- Conduct a qualitative analysis of the country papers of four Group C and D countries for which *encerronas* were not held, to determine whether there is a significant difference in the country papers of this group in comparison with the country papers of the group of countries for which *encerronas* were held.

3.3 However, there were some important limitations in the evaluation of the **EARs** and the impact of *encerronas*:

- a. The first limitation was the lack of written documentation defining EARs and *encerronas* and establishing their methodology, basis for quantitative analysis, objectives, and expected impact.
- b. The second limitation was that the analysis could only be performed for the last **10 encerronas**, the only ones for which the electronic files had been saved.
- c. The third limitation concerns how EARs exercise their influence, since, as indicated earlier, their potential impact on Bank programming and on national policymaking would be indirect. Even if the issues and focuses were the same, it would be difficult to unequivocally attribute this similarity to the impact of the EARs and *encerronas*. The strategies adopted by the governments could be influenced by other decision-making processes, such as: adoption of macroeconomic adjustment principles, structural reforms by the governments independent of *encerronas*, or macroeconomic crises whose resolution was affected by the country's negotiations with other multilateral and bilateral agencies, among other factors. Even other RES activities, such as seminars for the Latin

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<sup>4</sup> See Annex II for a description of the country programming and country papers.

<sup>5</sup> See Annex III for a description of the activities carried out during the evaluation process.

American Network of Central Banks and Finance Ministries, IPES discussion seminars, and seminars for dissemination of research results could have influenced the adoption of the RES proposals by the countries, which was thus not directly attributable to the **EARS**.

#### *IV. Two Views of EARS (EARS – Encerronas)*

##### **A. RES view of encerronas**

**4.1** Given the lack of regulation of the **EARS** and encerronas, and given that the only existing reference to them is in a Research Department document, the opinion of RES on **EARS** is crucial inasmuch as it will ultimately constitute the core of the **evaluation**.<sup>6</sup>

**4.2** RES notes that *encerronom* came about because of the need for timely brainstorming before changes of administration in order to be able to move forward with reforms and sell them to the future cabinets. *Encerronas* were originally defined as closed-door meetings with the executive branch (the president and his cabinet). They consist of the presentation of an economic assessment by means of a report—an EAR—comparing the country with the other Latin American countries in terms of policies and performance. Then strategies to address the principal economic and social problems are discussed. It is estimated that one and a half months are invested by researchers and one and a half to two months are invested by research assistants in preparing the *encerronom*. In any event, these are activities with a low direct cost in terms of preparation by the RES technical staff.

**4.3** RES' general view of *encerronus* is positive, because the meetings are seen as part of its ability to reach policymakers and influence the country's strategic thinking. RES believes that it has the comparative advantage of being able to do this independent of programming. The *encerronus* are an opportunity for the economic authorities to conduct a basic analysis of strategic economic thinking. They allow for dialogue and discussion on top priority economic policy issues with a significant impact on the countries' macroeconomic strategies.<sup>7</sup>

**4.4** For RES, *encerronas* maximize the role of RES in the policymaker market. However, because this process does not occur within the Bank, it is seen as a defect and a programming problem with respect to the inclusion of strategic elements.

**4.5** However, this separation from programming is viewed by RES as a prerequisite for its objective of having an impact on strategic thinking. Accordingly, RES rejects coordination of *encerronus*, since coordination is understood to mean something administrative among Bank departments that would deviate the *encerronom* from their purpose. It cites two reasons:

- a. What should be a free, strategically-conceived exercise of diagnostic assessment of the country would be contaminated by the Bank's lending activities. Mixing with lending activities would predispose the meetings to another type of dialogue, which is not the one intended for *encerronus*, since the dialogue produced by a lender and a prospective borrower looking at specific projects would detract from the connection and concentration necessary for a strategic dialogue.

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<sup>6</sup> See Annex VI for the RES assessment of the *encerronas*' observable impact.

<sup>7</sup> As examples of the concrete impact of *encerronas* on economic policy changes, RES mentions the liberalization of foreign trade in Panama (1996), identification of objectives and strategies for the Costa Rica Development Plan (1998), and identification of the principal policy challenges and options for the El Salvador Strategic Plan (1999).

- b. **RES** has a critical opinion of the country papers' ability to appropriately identify those strategic elements. According to RES, country papers have the defect of allocating projects and then cloaking the programming in a macroeconomic framework whose sole purpose is to provide some policy basis for previously-allocated **loans**,<sup>8</sup> without a strategic vision of the country.

## **B. The Regional Departments' view of encerronas**

**4.6** Generally, the Regional Departments perceive *encerronas*<sup>9</sup> as the result of an interaction between the supply of a "product" represented by RES interests in offering such a product and demand by the regions and ultimately the governments. It should be noted that *encerrona* participants have generally reported satisfaction with them.

**4.7** Most of the Regional Departments are satisfied with the quality of the material, with regard to the use of comparative indicators and macroeconomic data. However, other aspects of *encerrona* content have been questioned.

**4.8** The most frequent observation, however, is that there is a **serious** lack of coordination. Generally, with the exception of certain cases in Region 2, *encerronas* have tended to operate as events independent of programming, and their impact has not been very positive because the proposed strategies or policies were never eventually incorporated into the governments' economic policies. In one case, the *encerrona* even caused a very negative reaction from the government to the proposed strategy (Panama). It is clear that the contribution of an *encerrona* to economic discussions in the country is positive in cases in which the governments are already pro-market and pro-structural reform and have a clear "demand" for the *encerrona* type of message. Conversely, if the *encerrona* is taking place with a government that is already hostile towards liberal policies, it will not have as positive an impact.

## ***V. Qualitative Analysis of the Encerronas***

### **A. General**

**5.1** The general characteristics of the encerronas evaluated here are presented in Tables 1 and 2. Table 1 identifies the encerronas that were evaluated, the dates they were held, the participating members of the Bank, the point in the political cycle of the country in which they were held, and their duration.

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<sup>8</sup> RES clearly favors a top-down programming strategy and believes that the country papers are bottom-up devices of low quality with respect to the countries' strategic policies.

<sup>9</sup> See Annex IV for focus group results.

**Table 1**  
General characteristics of the *encerronas*

Source: RES

Country	Date	Bank participation	Country participation	Point in the political cycle	Duration	Source of Material
Trinidad and Tobago	Oct 97	RES staff	Economic cabinet, chiefs of decentralized agencies	First year of administration	Full day	RES
Honduras	Jul 98	Manager, Representative, and RES staff	President, economic cabinet and chiefs of decentralized government enterprises	First year of administration	Half day	RES
Paraguay	Sep 98	Manager, country economist, Representative, and RES staff	President, economic cabinet, and chiefs of decentralized government enterprises	First year of administration	Full day	RES
Venezuela	Oct 98	Manager, Representative, RE3 and RES staff	Economic teams of the three presidential candidates (Chávez, Rommer, and Saez)	Pre-elections	3 days	RES
El Salvador	Jun 99	Manager, Representative, and RES staff	President, economic cabinet, and chiefs of decentralized government enterprises	First year of administration	Half day	RES
Panama	Aug 99	Manager, country economist, Representative, RES staff, RE2 staff	President, cabinet, and head of government agencies	New administration	Half day	RES and RE2
Dominican Republic	Aug 00	Manager, Representative, RES staff, and RE2 staff	President-elect and his team of advisors	New administration	Full day	RES and RE2
Costa Rica	Mar 98	RES staff, Manager, Representative, and country economist	President and cabinet	First year of administration	Full day	RES
Guatemala	May 00	Manager, Representative, RES staff, country economist and RE2 staff	President, economic cabinet, and chiefs of decentralized government enterprises	New administration	Full day	RES
Ecuador	May 00	RES and RE3 staff	Representatives of indigenous communities	New administration	2 hours of a 2-day meeting	RES

**5.2** Table 2 lists the issues discussed at the *encerronas*, highlighting macroeconomic and structural reform issues, such as fiscal policy, financial policy, exchange policy, trade, infrastructure and privatization, labor policy, education, and decentralization. For each issue addressed, the table shows whether it was simply raised and prompted comments or diagnosis or was directly approached with suggestions for policies or reform. In general, the direct approach predominated, in particular for macroeconomic issues, which came up most often in the *encerronas*.

Source: Prepared by EVO based on EAR material

Table 2  
ISSUES ADDRESSED AT THE ENCERRONAS

	Growth factors	Financial policy	Fiscal policy	Exchange rate/dollarization policies	Tax policy	Macro volatility	Competitiveness	Decentralization	Education	Infrastructure	Trade	Privatization	Social security	Labor	Crime	Inequality	Institutions and government	Urban development
Costa Rica		0	X		0	X		X	X			0	XO	0			X	
Ecuador		XO	XO	XO	XO	X				0		0		0	XO	XO	0	
El Salvador	X	0	0	0	0			0	0									
Guatemala	X	0	0	0		X		0	XO	0	0	XO		0	0	0	0	
Honduras	X	0	0		0			0	0	0	0	XO	0	XO				
Panama		0	0	XO			0	XO	XO	XO	0	XO	XO	XO		X		XO
Paraguay	X	XO	0	XO				0	0	XO	0	0				XO		
Dominican Republic	X	0	XO		XO	XO		0	0	0			0			XO		
Trinidad			XO		XO	XO			XO		0	XO						
Venezuela		0	0	0	0	X		XO	0		0	0		0				X

Note: "X" indicates that the issue was raised and prompted comments and critical diagnosis; "O" indicates that policy or reform suggestions prevailed; "XO" indicates that both approaches were taken.

**5.3** To study the interaction between EAR content and presentation of issues at the *encerronas*, certain specific cross-cutting issues were selected for review on the basis of two complementary criteria: their repetition at all the *encerronas* and their obvious importance for the formulation of the countries' development strategies. These issues were: (a) privatization and infrastructure, (b) exchange policy and dollarization, and (c) decentralization. In each case, relevant material from studies carried out under the aegis of RES was reviewed to determine whether initial hypotheses were formulated based on the available literature. The general observations of this review were:

- All the issues addressed at the *encerronas* involve, to some extent, previous studies (conducted by either RES or third parties) that combine analysis and empirical evaluation of the hypotheses. In several cases, the findings were quite solid, while in others the evidence was preliminary or incomplete and depended on the specific conditions of each economy.
- In some cases, previous studies were used to foster overconfidence in a certain approach, using language designed to achieve almost a mass marketing effect. The arguments were "oversold" almost continuously as a result of the intentional or unintentional attempt to effectively propose reforms.

**5.4** The study showed that the most problematic aspects of the presentations are:

- a. The underlying factors or elements in each type of sector or strategy were not fully developed, resulting in a very uncritical view and in excessive unconditional reiteration of certain predetermined policies.
- b. Somewhat related to the above, the specificities and diagnosis in each country were not clearly set out, in some cases due to insufficient use of information, even when information was available.
- c. In some cases selective use was made of information.

### **1. Inadequate development of the underlying factors in each type of sector or strategy**

**5.5** One of the key findings of the study is that the issues were addressed without due consideration of all the factors underlying the strategies. This oversight leads to difficulty understanding all the implications of the proposed strategy and inefficient, incomplete presentation of it.

#### **1.a Exchange policy and dollarization**

**5.6** The issues associated with exchange policy were examined explicitly in at least five countries (the Dominican Republic, Ecuador, El Salvador, Guatemala, and Venezuela). The recommendations made all revolved around stabilizing the exchange rate. The options recommended included: (a) convertibility, (b) a currency pegging agreement with the United States, and (c) unilateral dollarization of the economy.

**5.7** The discussion on alternative exchange regimes has of course remained open in academic forums and specialized international organizations. The IMF has not taken an official position, either in general or for the Central American countries." Nor does the Bank have a standard position on this question. The preference for fixed or flexible exchange rates depends on the costs and benefits involved in achieving stabilization and growth objectives. At the heart of the discussion is monetary policy: a

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<sup>10</sup> Calvo G. (1999) "Capital Markets and the Exchange Rate" and "On Dollarization", mimeos, University of Maryland. Edwards S. and M. Savastano (1999). "Exchange Rates in Emerging Economies: What do we know? What do we need to know?", NBER Working Paper 6516. Mishkin F. and Savastano (1999). "Monetary Policy Strategies for Latin America". NBER Interamerican Seminar, December.

strong exchange rate means adopting the monetary rule of the country to the local currency is being pegged; the alternative means domestic rule, but which due to questions of unstable fiscal policy or the increasingly volatile financial markets, may not be viable given the conditions in a number of countries, be they relatively large like Argentina (where the historic internal instability weighed heavily) or small.

**5.8** The alternatives faced by various Central American countries, such as those analyzed, are real, and must therefore be studied. Consequently, the selection **of** issues at the *encerronas* is entirely valid and appropriate. However, there have been significant deficiencies in the transmission of the information needed for proper decision-making during the selection process. For example, the most common economic costs the currency peg strategy may generate are not mentioned: the loss of sovereignty, the costs of adjusting to the asymmetric shocks that create trade imbalances with neighboring countries which do not adhere to the policy, and real shocks that may result in nominal adjustments that lead to financial crises. Neither is the interaction with strategic decisions on trade policy mentioned, perhaps because it is assumed that they do not exist and a unilateral analysis is more valid.

**5.9** The discussion of the options also suffers from a lack of information and specific analysis. Of the three included in the EARs, mentioned above, the one referring to a hypothetical monetary association is not adequately explained, giving the impression that it has been added but is not available, leaving the actual choice of either convertibility or unilateral dollarization.

5.10 Lastly, on an issue as controversial as dollarization, no mention whatsoever was made of its potential political costs or of the countries' inhabitants' willingness to pay to have their **own** currency (even if it has a low exchange rate).

## **1.b Privatization**

5.11 Analysis of the information contained in the EARs on privatization policies shows that privatization can ultimately be summarized in a few comparative indicators that highlight: (i) the percentage of the GDP that was privatized; (ii) the structure of the privatizations (industry vs. infrastructure); and (iii) the regulatory institutions. In some cases, data on coverage and the percentages of public capital provided are included. Generally, with the exception **of** some qualitative data, outcome is neither defined nor measured (in terms of rates, coverage, quality, productivity, and so forth) for privatization (or of State-owned companies if not privatized).

5.12 In the area of privatization, the *encerronus* present, in a straightforward manner, the hypothesis of "more market" (privatization, regulation, and competition in infrastructure services), "more government" (investment in the central government to finance infrastructure), and "more representativeness or consistency" (decentralization for design and execution). Apparently, **thus** formulated, this hypothesis is reasonable and attractive from the policy recommendation standpoint, and is also an avenue explicitly explored by Bank policy.

5.13 However, *encerronus* did not take into consideration the fact that the experience gained in infrastructure privatization shows that execution and performance should be evaluated on the basis of a matrix that distinguishes among: (a) sectors (for example, telecommunications vs. water supply and sanitation), (b) market sizes (countries that can better accommodate markets and others that cannot), (c) country income levels (countries with per capita incomes that allow them to pay reasonable rates and that have coverage and countries that have neither), and (d) the quality of the institutions (countries with separation **of** powers, contractual compliance, regulatory frameworks, and **so** forth).

**5.14** **Thus**, if an evaluation is being conducted of an industry that can accommodate competition (telecommunications) in a country with a large market for various companies (or international

competition), with a per capita income that means that consumers can afford prices close to costs, and with reasonably-designed institutions, a highly positive picture emerges of the possibilities of a strategy based on more market, more government, and more decentralization. However, the energy sector (electric power and gas subsectors) would be in an intermediate position depending on or distinguishing among the vertical phases of the industry, although in any event differences in market size and income level are crucial for performance. Lastly, at the other end of the spectrum, unfavorable results are generally found in the water and sanitation sector, which has an industry structure that does not lend itself to competition, users with income levels that imply little disposable income or ability to pay, and politicized, inefficient, contractual government institutions, even after privatization. Privatization in that sector yields unsatisfactory results, even in countries with privatization models that are successful in other sectors (such as Argentina).

5.15 Accordingly, the *encerronus* should be better prepared to address the issue of privatization at least with respect to: the sectors' different abilities to replicate competition, the role of market size, difficulties guaranteeing coverage, and access in countries with very low incomes or extreme poverty. The idea of more investment in the central government no doubt responds to this situation, but the mechanism to be used to do so is not developed (demand or supply subsidy, social policy, and so forth) in terms of regulatory design.

5.16 Lastly, the emphasis placed on institutional design is excessive if the previous structural elements are ignored, because the same institutions may be endogenous. In the case of water, for example, are the cases unsuccessful because of institutional problems or because the industry's organizational structure, in addition to limited purchasing power, prevents market development and leads to forms of unsatisfactory contractual governance? Why is coverage still so low in countries such as Argentina? Why is there so much contractual renegotiation in this sector? Questions like these, which stimulate discussion and help draw lessons from each case and each country, were raised at the *encerronus*."

## 1.c Decentralization

5.17 Decentralization is another issue that has been frequently addressed at the *encerronus*. In seven countries it was an important or highly visible part of the presentation.

5.18 RES based the *encerronus* on previous studies on decentralization in Latin America that examined the interaction of decentralization, fiscal institutions, and fiscal performance.<sup>12</sup> In these presentations, conversely, decentralization policy is presented in a broader, more self-contained manner. The discussion plan is simple: first, a comparison of decentralization in Latin America and in the country; second, its advantages and disadvantages; and last, proposals for the country based on an ideal model or plan.

5.19 Review of a standard presentation (for example, Guatemala) clearly reflects the above structure. The advantages of decentralization, according to the presentation, stem from bringing the decision-making bodies closer to the citizens, greater efficiency in the provision of public services, stronger competition among jurisdictions, and greater citizen oversight of policymaking. The dangers of decentralization are transferring the burden to other jurisdictions (which others pay), control by powerful lobbies, more institutional weakness, and more ambiguity of responsibilities. The ingredients for successful decentralization are: (a) non conflicting responsibilities in different jurisdictions, (b) maximum

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<sup>11</sup> In this respect, there are differences of focus and, especially, of critical evaluation, with regard to what is occurring in Latin America with the material developed under the World Bank. See, for example, Estache A., A. Gómez Lobo and D. Leipziger (2000), "Utility, Privatization and the Needs of the Poor in Latin America: Have We Learned Enough to Get it Right?", mimeo, World Bank.

<sup>12</sup> IPES (1997, pan III). Stein E. (1998), "Fiscal Decentralization and Government Size in Latin America", Working Paper Series 368, OCE, IDB.

possible decentralization of taxation, subject to feasibility and economic reasonableness; (c) transfers as transparent, stable, and equitable as possible; and (d) limits on autonomous subnational debt.

**5.20** A reading of the EARS shows that once they get away from the reports that are the grounds for decentralization and the analysis, the presentations turn toward rigid positions with a strong regulatory content. One of the most important aspects to consider is associated with the large body of literature on fiscal federalism which, as is well known, emphasizes the argument of economic efficiency in the decentralized provision of public goods and social services, which was not done in the *encerronas* studied. *Encerronas* must provide some empirical, concrete, convincing evidence that the more decentralized countries have better results (efficiency, cost-effectiveness, quality) in the provision of public goods and services, such as better hospitals, schools, police, and education. However, the objectives, results, or performance achieved after decentralization are not clear from a reading, despite the breakdown into advantages and disadvantages.

## 2. Country specificities and diagnosis

**5.21** The dominant style of *encerronas* is to obtain, based on a country's position in comparison with other countries in the region or subregion, simple evidence of the country's problems and challenges. This leads the analysis to a cross-cutting level in which the country's specific circumstances and history have less weight in the assessment and in the suggested policy strategies.

**5.22** An examination of the EARs shows that a great deal of information is intensely used,<sup>13</sup> with little space for dialogue. A message is thus sent out quickly with heavy stress on institutional reforms that includes little critical content on the results of the reforms in the region and the country. The EARs are thus transformed into proposals for reforms based on key ideas and the comparison of data by country.<sup>14</sup>

### 2.a Exchange policy and dollarization

**5.23** On this point, EARs analysis demonstrates that the EARs start **from** a pro-dollarization position without taking into consideration the conditions in the country or its specificities, and that dollarization would be recommended regardless, even if discussed with Mexico or Canada." This observation does not apply to Ecuador and Panama,<sup>16</sup> where dollarization was already occurring de facto.

**5.24** It is therefore interesting to note that the El Salvador and Guatemala *encerronas* were based on an analysis of exchange rate trends to support a currency peg in both cases. But in the case of El Salvador (first slide below) the grounds mentioned was that *the exchange rate had appreciated, whereas* in the case of Guatemala, it was that *the exchange rate had depreciated considerably in 1999 (14%)*.

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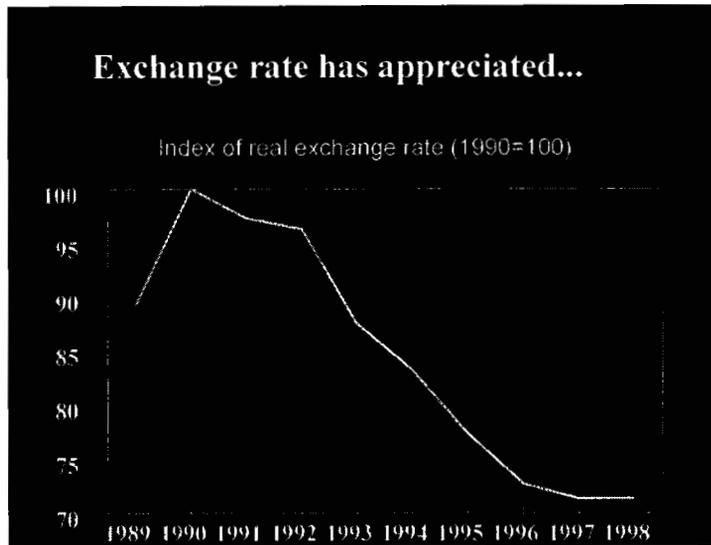
<sup>13</sup> The basic information most commonly used for *encerronas* comes from sources such as: conventional macroeconomic data from the countries' national accounts, the IMF, and other sources; in-house indices developed by RES, for example, on the quality of fiscal institutions, labor rigidities, and structural reforms; data from ongoing household surveys in the countries, drawn up under the Social Information System (SIS); legal or institutional information on economic regulations; and public opinion polls conducted by nonprofit institutions with Bank support (Corporación Latinobarómetro, Opinión pública latinoamericana, 1995-2000).

<sup>14</sup> The *encerronas* seem more like the product of a foundation or think tank devoted to disseminating its message than a strategic exercise based on economic information carried out by a research department, with doubts about the results and a critical view of the countries' developmental process.

<sup>15</sup> For a discussion in favor of dollarization using Canada as an example, see R. Mundell (2000) "Currency Areas. Exchange Rate Systems and International Monetary Reform", *Journal of Applied Economics*, III, 2, pp. 217-256.

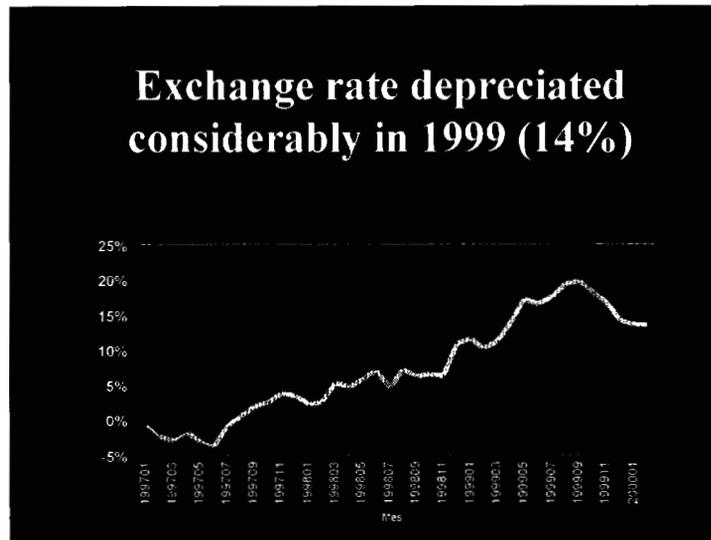
<sup>16</sup> For a discussion of the problems of dollarization in a comparative analysis of Panama and other Latin American countries, see S. Edwards (2001) "Dollarization: Myths and Realities. University of California. Los Angeles feb (mimeo).

### El Salvador\*



\*Slide presented at the El Salvador *encerrona*

### Guatemala\*



\*Slide presented at the Guatemala *encerrona*

**As** can be seen, despite the fact that the initial situation and the changes in the exchange rate were radically different, a currency peg was proposed in both cases. Then, the following two slides were presented, also for both.

## El Salvador and Guatemala\*

### More options for pegging

- Currency board
- Monetary association treaty
- Unilateral dollarization

\*Slide presented at the El Salvador and Guatemala *encerronas*

### Why a supranational currency?

The problem of original sin

- There is no external credit in the domestic currency
- There is no long-term domestic credit

The consequences

- Undermining of exchange rate
- Undermining of terms
- Financial fragility
- Limited financial development

\*Slide presented at the El Salvador and Guatemala *encerronas*

5.25 Thus, the hypothetical advantages of the proposed policies are not explained in terms of benefits and costs for each country so it can more clearly grasp the economic impact involved in the decision. Presenting intermediate observations on interest rates or their dispersion are useful, but not necessarily sufficient.

## 2.c Decentralization

5.26 The EAR review shows that in the area of decentralization the specificities of the national cases should receive more attention as well. The international benchmarking methodology RES uses was also applied in this case. but again. there are questions about the undue stress on comparisons and neglect of the country's specificities. The following observations can be made in this connection: (a) a country's degree of decentralization cannot be separated from its size, history, geography, and politics; (b) comparison with the Organization for Economic Cooperation and Development (OECD) as a

benchmark can be relatively useful or relatively deceptive. The very idea that “the whole world is decentralizing” and that “Latin America (and this country) is highly centralized” implicitly assumes that they are all equal and ignores patterns of development that cause the countries to modify elements of their economic and institutional structure during the **growth** process;” (c) the presentations consistently used the term “subnational” to represent everything that is not the national government and should be the target of decentralization. But the concept of subnational (region, province, *municipio*) is not clear. It is assumed to be determined by political divisions, but there are explicit recommendations for accelerating the process. In some Latin American countries, that are organized federally, such as Argentina, fiscal federalism concerns provincial public finance.” However, it is recognized that that is not an appropriate level and that there is a hierarchy of activities to be decentralized between the nation and the provinces and between the provinces and the *municipios*.” Moreover, there are *municipios* with populations exceeding one million, suggesting even further decentralization.

### 3. Selective use of information for some countries

**5.27** The third problem encountered in the qualitative analysis was the selective use of information in the preparation and presentation of *encerronus*. A review shows that the available information was not always used during their preparation, and the same parameters or criteria were not always followed. In certain cases, information that was extremely relevant to the proposed strategy or policy was omitted because of inconsistency with the proposed strategy.

#### 3.a Decentralization

**5.28** As in the situation described above, in some cases the risks of decentralization were found to have been deliberately downplayed, perhaps because it was assumed that the countries in question were overcentralized, as in the cases of Honduras and Paraguay. The presentations for Paraguay included observations or predictions that were exaggerated to the point of claiming that given Paraguay’s centralization, the situation was “*apotentialhell*,” and ignoring Paraguay’s unified political structure.

**5.29** It should be borne in mind that the unified nature of the State entails a set of consequences that are highly significant to the decentralization process. In most cases, decentralization cannot be initiated without a basic constitutional reform that changes the unified nature of the State and, consequently, the political and social pact that sustains it. In many other cases, the process collides with serious practical obstacles, given the nonexistence of sufficient institutionality to allow for decentralization of authorities. Moreover, the necessary political, social, and institutional culture has to be in place and far-reaching changes must be made in the country’s general legal framework.

**5.30** The slide that follows was presented at the seven *encerronus* that addressed decentralization, accompanied by the following statements: in Panama, “*The principal current problem is excessive centralization*”; in Venezuela and Paraguay, “*Latin America is highly centralized*”, in El Salvador, “*decentralization is quite incipient*”? in the Dominican Republic, “*the Dominican Republic is highly centralized*”; in Guatemala, “*But it is still highly centralized*”; and in Honduras, “*Honduras is still highly centralized*”.

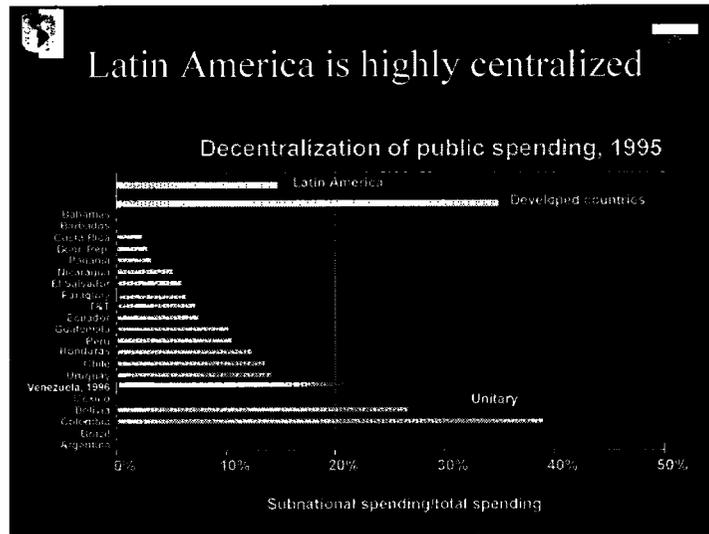
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<sup>17</sup> Generally, all the international benchmarking carried out at *encerronas* is too static and ignores temporary patterns, even if they are descriptive, which is an old issue in the literature on development. See, for example, Chenery H. and Syrquin (1975), *Patterns of Development 1950-1970*, Oxford University Press.

<sup>18</sup> Porto A. (1990), *Federalismo Fiscal: el caso argentino* [Fiscal federalism: the case of Argentina], Ed. Tesis, Buenos Aires. Also in the works of P. Sanguinetti.

<sup>19</sup> López Murphy (ed.), *La Descentralización Fiscal en América Latina: Problemas y Perspectivas* [Fiscal Decentralization in Latin America: Problems and Perspectives], Network of Centers for Applied Economic Research, IDB.

Panama, Venezuela, Paraguay,  
El Salvador, the Dominican Republic, Guatemala, and Honduras

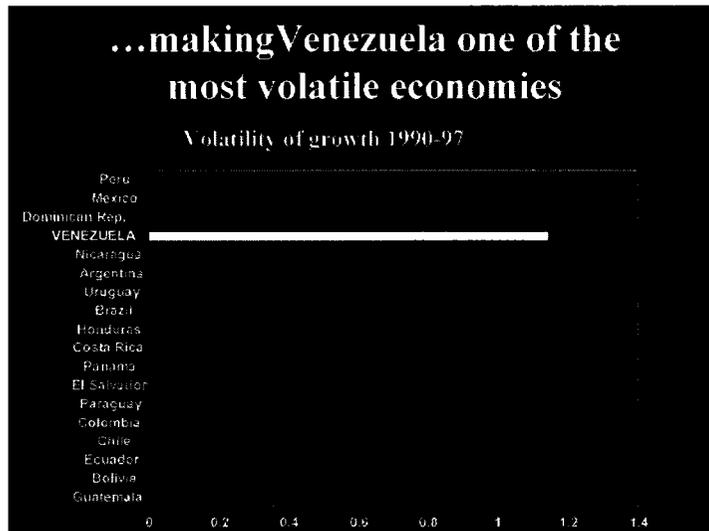


\*Slide presented at the *encerronas* for Panama, Venezuela, Paraguay, El Salvador, the Dominican Republic, Guatemala, and Honduras

3.b Dollarization

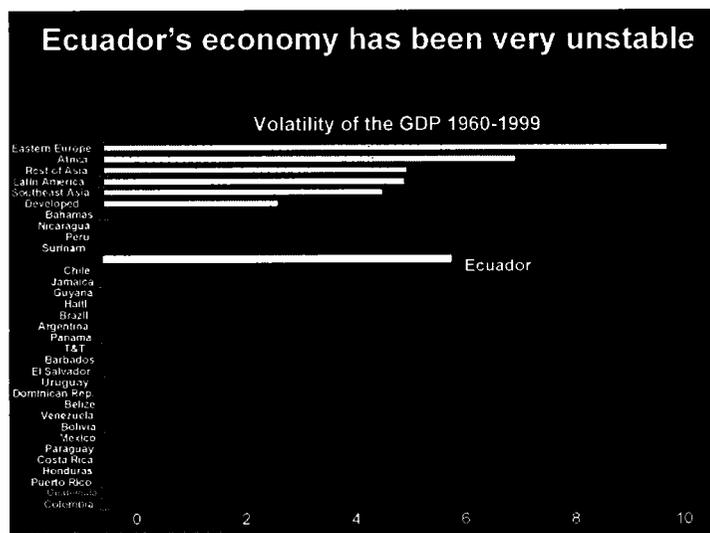
5.31 In the area of dollarization, a comparison of the *encerronas* for Venezuela and Ecuador—in the case of Ecuador after the country had already decided to dollarize—shows that the information provided was completely different.

5.32 At the *encerrona* for Venezuela, the argument for dollarization was *"that the volatility of the terms of trade has resulted in a highly unstable level of public spending, leading to very procyclical fiscal policy and making Venezuela's one of the most volatile economies in Latin America"*. According to the slide that follows, Venezuela had the third most volatile growth pattern for 1990-97, while Ecuador had the third least volatile growth pattern in Latin America, exceeding only Bolivia and Guatemala.



\*Slide presented at the Venezuela *encerrona* in support of dollarization

5.33 Conversely, the Ecuador *encerrona* was held after Ecuador had dollarized. To justify that dollarization, a slide stating that “*Dollarization was the only way out*” was presented. It was accompanied by the slide shown below, in which the time line used to determine volatility was changed from 1990-1997, as in the previous case, to 1960-1999, thereby moving Ecuador’s position from third least volatile to fourth most volatile.

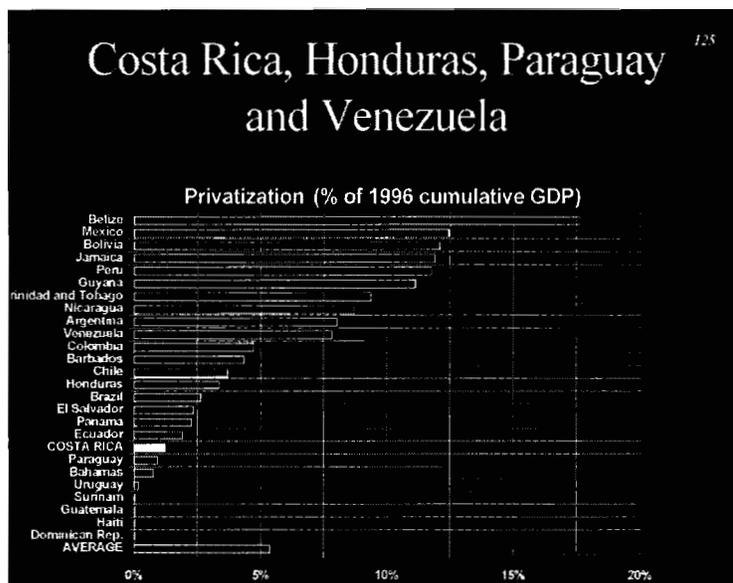


\*Slide presented at the Ecuador *encerrona* justifying the dollarization that had already been adopted

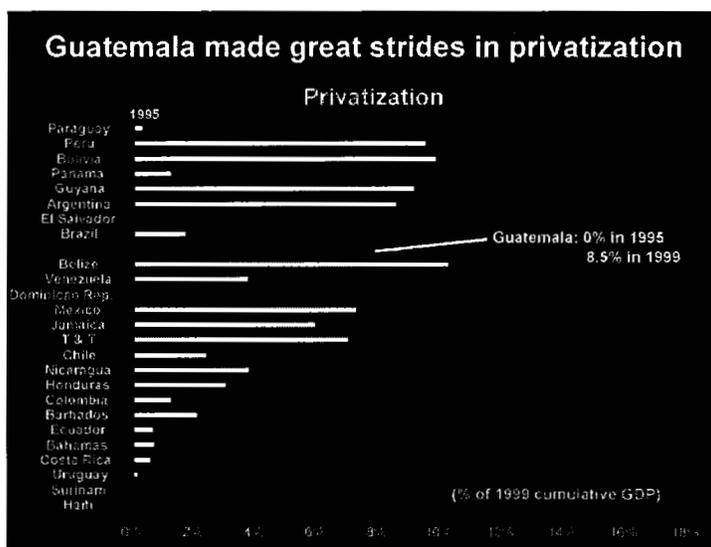
### 3.c Privatization

5.34 In the area of privatization, the analysis of *encerronas* shows manipulation of information and in some cases, misinformation. In the case of Costa Rica, where the diagnosis suggested from the outset that the privatization plan was faulty (“*everything remains to be done*”), the *encerrona* avoided a series of performance indicators showing a much more favorable situation than in other Central American countries. However, those same indicators were available and included in the presentations for other countries (Honduras and Guatemala, for example), where the goal was to show relatively poor performance.

5.35 The first of the slides that follow was presented at the *encerronas* for Costa Rica, Honduras, Paraguay, and Venezuela. The second was presented at the one for Guatemala:



\*Slide presented at the *encerrona* for Costa Rica, Honduras, Paraguay, and Venezuela

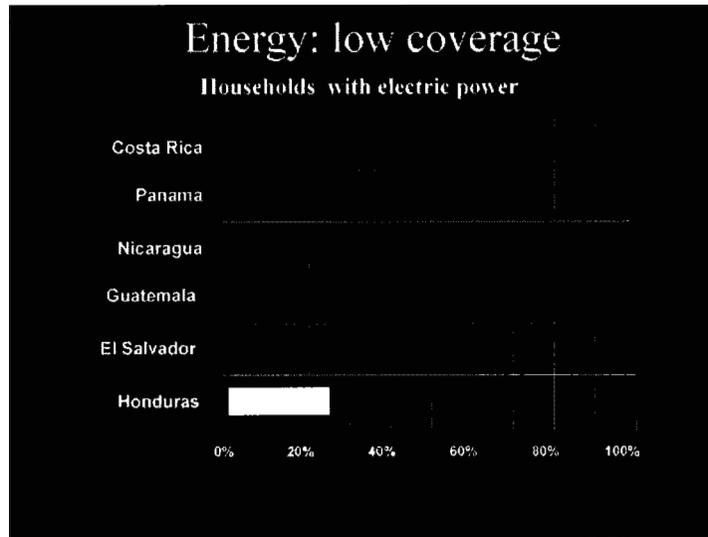


\*Slide presented at the Guatemala *encerrona*

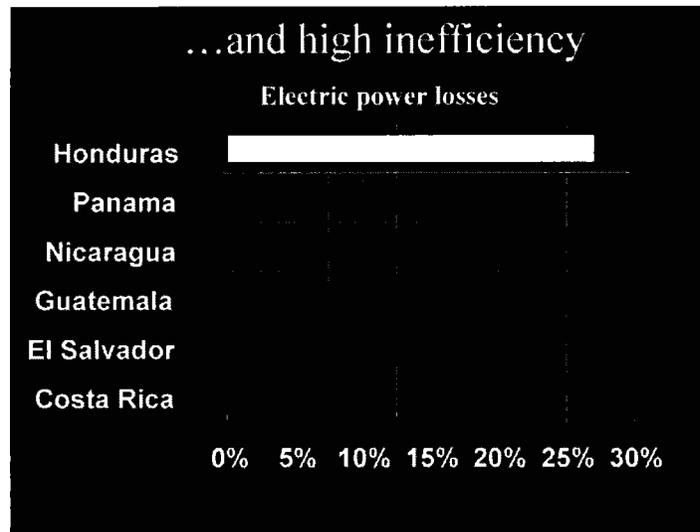
5.36 The first slide was accompanied by the following statements, Costa Rica. *“Very little has been done in terms of privatization . . .”* It followed the statement *“Privatization: everything remains to be done.”* In Paraguay, the slide said: *“State-owned companies are not investing, but are also not allowing others to invest”*. In Honduras, it said *“Little has been opened to the private sector”*. And lastly, in Venezuela, the slide stated: *“Little had been achieved until 95 . . . but things are changing”*. The recommendation in all cases was to privatize or increase privatization.

5.37 To support this recommendation in the case of the Honduras *encerrona*, the following slides were presented comparing quality of services. But they were not presented for Costa Rica, since they indicated that the quality of public services, without privatization, in Costa Rica was comparatively the best in Central America.

## Honduras

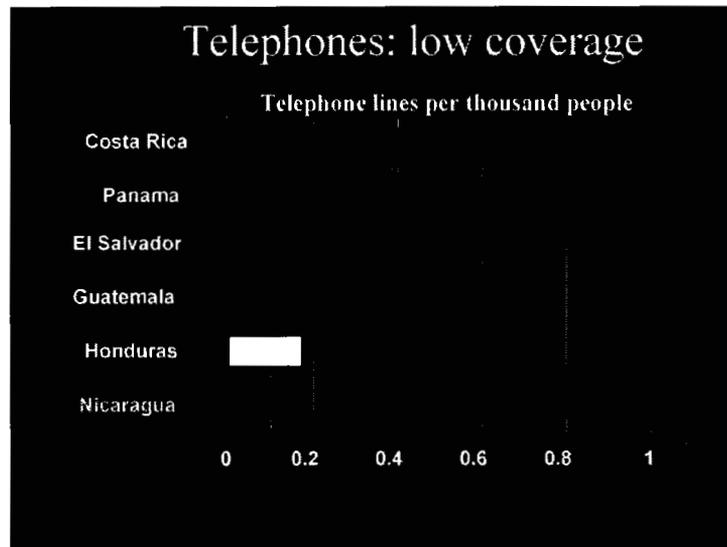


\*Slide presented at the Honduras *encerrona*

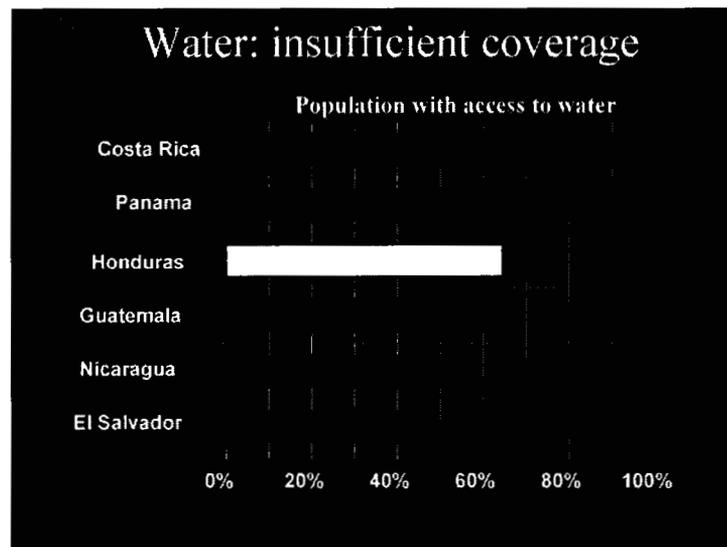


\*Slide presented at the Honduras *encerrona*

## Honduras



\*Slide presented at the Honduras *encerrona*



\*Slide presented at the Honduras *encerrona*

5.38 In the case of the Guatemala *encerrona*, indicators of utility efficiency similar to those presented in Honduras were given, but from another source of information. Latinobarometro.

5.39 Lastly, in the case of the Dominican Republic, the initial hypotheses received very superficial treatment, using very partial and tangential information (for example, it was noted that central government public investment was not low, and then it was concluded that low productivity was the cause, but based on an index of government effectiveness that should have a nonquantitative basis). However, the treatment of the electric power sector was quite thorough. In the case of Paraguay, the rate of telephone ownership is shown as very low, but the figure ignored mobile telephone data (twice as high as fixed telephones) in a country with a high rate of informal use (but at any rate having problems with

investment in infrastructure). A slide from the Paraguay *encerrona* indicated that Argentina had full coverage in the sanitation sector in urban areas, which is incorrect.<sup>20</sup>

## **VI. *Encerronas and Country Programming***

### **A. Country papers and encerronas<sup>21</sup>**

**6.1** To ascertain whether the viewpoints expressed in the **EARs** and the country papers showed complementarity and consistency, the country papers from the countries with encerronas were analyzed along with the four control countries where encerronas were not held.

**6.2** The objective of the comparison was to evaluate the possible contribution of the encerronas and the EARs to programming and the dialogue with the country authorities. It was not to evaluate the quality of the CPs or the planning process as carried out in each Regional Department.

#### **1. Control group of countries**

**6.3** There were no perceptible differences in either structure or content between the country paper for Paraguay and the country papers for Uruguay and Bolivia attributable to the fact that Paraguay had had an *encerrona*. The country paper for Bolivia indicated that an RES expert had participated in its preparation.

**6.4** The country papers for the two control group countries in Region 3 (Guyana and Jamaica) shared the common feature of a less in-depth and less thorough analysis of macroeconomic conditions. However, this difference was not attributable to the fact that no *encerronas* were held in those cases.

#### **2. Countries with encerronas**

**6.5** Annex V compares the thematic content of the 10 encerronas reviewed in this report with the respective country papers and the Bank's operations program.

**6.6** Among other findings, the comparison confirmed the marked differences in thematic orientation that were expected. In several cases, the encerronas proposed ambitious reforms that had no counterpart in programming or the country papers. In general, the country papers had a more structural focus and the encerronas focused mainly on macroeconomic adjustment and reforms.

### **B. The Bank's operations program and the *encerronas***

**6.7** In terms of the impact of the issues addressed and focus utilized at the encerronas and the operations approved by the Bank subsequent to the encerronas, consistency could only be clearly found in two countries: Ecuador and the Dominican Republic.

**6.8** In these cases, the projects that reflected a focus similar to that used at the *encerronas* represented **79%** and **67%** of all funds approved by the Bank, respectively. However, it must be borne in mind that the post-EAR period analyzed was very short, since the *encerronas* were held in **2000**.

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<sup>20</sup> The number for the metropolitan region that includes Buenos Aires and greater Buenos Aires is 58.1%, according to the latest Household Spending Survey (1996/97). The poorest quintile had 27% coverage, according to this survey. See F. Navajas (1999), "Structural Reforms and the Distributional Effects of Price Changes in Argentina." at [www.ssm.com](http://www.ssm.com) Latin American Economic Abstracts. WPS, Vol. 3, No. 7, October 1999.

<sup>21</sup> See Annex V, comparative table of issues addressed in the *encerronas*, country papers, and operations program.

6.9 In the Dominican Republic, the loan for modernization of secondary education with emphasis on decentralization of management supported by investments in infrastructure, curricular development, and teacher training, included areas consistent with the general focus of the *encerrona*.

6.10 Likewise in Ecuador, the sector investment program had the general focus on privatization of infrastructure (electric power and telecommunications) and reform of the financial sector to reprivatize it as the *encewona* did.<sup>22</sup>

6.11 The case of Venezuela is more unusual. Some 78% of the total amount approved by the Bank between 1998 and 2000 corresponds to issues discussed at the 1999 *encerrona*. The following sector loans were approved before the *encerrona*: support for fiscal and public sector reforms, pilot decentralization program, and program for social security reform and central government modernization.

6.12 However, the focuses are a little different in view of the fact that the Bank approved one of the loans before the *encerrona* and the most recent change of administration. The *encerrona* proposed the following steps to achieve fiscal balance: draw up the budget on the basis of a fixed contribution from oil revenues, maintain fixed exchange rate (dollarization was mentioned), improve tax collection, make income tax more progressive, and broaden the VAT base to include retail distribution. The sector loan calls for establishing a macroeconomic stabilization fund, simplification of the luxury tax rate structure, a decrease in the number of exemptions, and broadening of the income tax base. Release of the first tranche was subject to maintenance of spending for six poverty-targeted social programs. The decentralization program (which is basically a program to strengthen subnational governments) and the social security reform program have a focus similar to that of the *encerrona*. Interestingly, according to the Project Performance Monitoring report (PPMR), the two sector loans have performed poorly, since the new administration is less committed to the structural reform agenda and is therefore not implementing the reforms that were proposed and agreed upon with the previous administration.

## ***VII. Conclusions and Recommendations***

### **A. Conclusions on the *encerronas***

The following *preliminary conclusions* can be drawn from the conducted analysis:

7.1 In principle, *encewonas* could be a powerful instrument for dialogue between the Bank and its member countries. Their main characteristics are: (a) they provide economic advice to the financial authorities of Bank member countries; (b) their principal contribution is the elements of strategic analysis that underlie the product; (c) they are similar in presentation to a think tank style.

7.2 As for the content of *encerronas*, more than in the definition of the general issues, problems were identified in two quite evident areas in almost all of the cases analyzed. First, the *encewonas* failed to recognize the countries' specificities—which in and of itself is a subject for strategic discussion—but viewed the countries solely in terms of their position in a table of structural reforms and actual or expected performance. Second, the *encerronas* unduly stressed dissemination of reforms and gave uncritical support for them, which tended to oversell the reforms by justifying them with the specially tailored background material. Thus, the current format represents a risk in and of itself, inasmuch as it contains many recommendations that are not properly supported by a knowledge of the country's situation and the necessary justifications. As a result, country authorities rejected the recommendations.

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<sup>22</sup> See Annex V for a more detailed comparison of the issues addressed in the *encerronas*, country papers, and the Bank's operations program.

7.3 There are serious operational and institutional coordination problems between **RES** and the Regional Departments in *encerrona* preparation, reflecting the basic problem of integration of RES with operations activities. These problems ultimately underline something more serious than mere coordination. The conflict concerns the difference in focus between *encerronus* (pro-reform and pro-macroeconomic adjustment) and the type of analysis found in country papers (more structural). In this respect, the *encerronus* as an instrument for economic advice for the member countries brings RES closer to the Bank's operations activities. They thus have the potential to create an opportunity for the convergence of interests and cooperation despite the fact that past experience generally shows the opposite effect. In addition, there are significant differences in the approach to economic development issues.

7.4 The impact of the *encerronus* on Bank programming (country paper and operations program) and on the dialogue with the country is, in general, more visible when the member country governments are pro-structural reform and pro-market, as was the case of the *encerronus* in Panama (1996), Costa Rica (1989), and El Salvador (1999).

7.5 To improve this powerful instrument for dialogue between the Bank and the member countries, changes must be made in its conceptual design and operational aspects.

In view of the foregoing, the *final conclusions* are:

7.6 EARs and *encerronus* are relatively inefficient in **RES'** two natural markets, the Bank and national policymakers. In fact, based on the analysis, it can be concluded that:

- a. *Encerronas* are practically useless as an instrument for selling macroeconomic policy strategies to the countries. As discussed above, only when a new administration's policy agenda already included the measures promoted in the respective EAR was a connection found between EAR content and the structural measures adopted by the country. This conclusion is reaffirmed by the **RES** assessment, which reported "no observable impact" in 11 of the 18 *encerronus* held (see Annex VI for the **RES** assessment of *encerronus* observable impact). In just three **cases**<sup>23</sup> were specific macroeconomic policy measures consistent with the content of the *encerronus*.
- b. *Encerronus* have negligible potential as an instrument for support and feedback during country programming. **RES** recognizes this conclusion as well, but this is not the time to review the reasons for it.

7.7 The three main problems identified in the qualitative analysis of the *encerronus* were: inadequate development of the specific factors underlying each strategy, lack of a country-specific diagnosis, and selective use of information to justify the proposed strategy. *Encerronu* preparation and presentation thus focus on the merits of the proposed strategy's technical and ideological components, but ignore the product's recipients and end-beneficiaries, the citizens of a given country. Beneficiary interests are subordinated to the proposed strategy's hypothetical merits, as occurred for example for privatization in Costa Rica.

## B. Recommendations for *encerronas*

In view of the above-described conclusions, the following recommendations can be made:

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<sup>23</sup> Panama, Costa Rica, and El Salvador.

7.8 Consideration should be given to whether a new instrument should be devised to replace the EARs/*encerronas* that can meet the objectives RES originally established for them. The point in the political cycle of a country in which the *encerronas* take place, and the opportunity to sit down and talk with the country authorities about policy strategy, undoubtedly have great value added. They provide mutual understanding between the new leaders and the Bank, and help introduce the authorities to the Bank itself, its policies and strategies, and even its Representatives.

7.9 If *encerronus* are retained, in order to realize their potential as an instrument for consensus-building during policy changes, they should be an activity of the Bank as a whole rather than a single department, even if the burden and responsibility for their preparation lies with RES. RES, as an instrument for economic analysis that is not directly linked to Bank operations must maintain a degree of independence so that it can develop thinking and conduct analyses beyond the scope of the countries' short-term demands. However, it is necessary to devise and implement measures, tools, and channels through which RES' intellectual and creative efforts can add value in the operations carried out by the regions. The regions can in turn provide feedback to RES with information from the field that will help RES conduct analyses that are better tailored to the specificities of each region and country. RES, as a Division that conducts studies, was created precisely for the purpose of enhancing the base of knowledge that affects the policy agendas of the Bank and the member countries. RES' mere recognition of its minimal impact on programming should be more than sufficient to trigger sober reflection on this point, in order to prevent RES's valuable thinking from becoming purely an exercise in intellectual self-complacency.

7.10 To ensure that *encerronas* are truly an instrument of the Bank, Management should draw up a document clearly setting forth the purpose, objectives, and evaluation criteria to be used in future exercises of this type. The document should be formally approved by Management and submitted to the Board of Executive Directors for consideration.

7.11 The results of this evaluation suggest that the following questions should be considered in preparing the document:

- Determine whether or not the *encerrona* exercise should be separated from the Bank's other programming activities, especially those carried out for preparation of the operations program, in terms of consistency in the diagnostic analysis and proposals.
- Strike the right balance between a comparative cross-cutting presentation and country-specific content, since it is essential to include such specificities, to analyze them in terms of the development strategy the country is following, and to bear in mind the potential impact of the proposed strategy or policy on the country's citizens as the end-beneficiaries.
- Endure adequate participation by Regional Operations Department staff in *encerrona* preparation and implementation.
- Design the structure as a discrete activity or a systematic activity for dialogue.

7.12 These general questions that should be considered translate into specific changes in the conceptual design and operating aspects, as suggested below.

## C. Suggested changes in the conceptual design and operational aspects of EARs/*encerronas*

### Conceptual design

7.13 EARs/*encerronas* should move toward a new format that would be a strategic analysis of development per se and not for project preselection, with a forward-looking approach that identifies the strengths, weaknesses, opportunities, and threats that help determine development strategy. Such a format

would minimize the risk that some of the problems attributed by RES to the country paper preparation process would occur (lack of strategy, indoctrination to justify projects, and so forth).

**7.14** The Bank's role in development strategy formulation should be that of facilitator. It should suggest options and compare possible results. Its function is not to devise and propose a definitive solution, but to help the parties identify it. An *encerrona* is an initial point in that process that should be continued at other points of dialogue and programming. Whether or not an *encerrona* selects or advocates one of the options, the current role of "selling" the product needs to be drastically reduced, and analysis of the specific impact of that option on the country needs to be elaborated upon.

**7.15** In establishing a development strategy, analysis of the real sectors of the economy is essential. Indicators should be used that help assess their relative importance, recent performance, efficiency, the level of training achieved by the producers, and their potential contribution to development (in addition to the macro indicators, social indicators, and public opinion indicators currently used). It is crucial that the findings of this evaluation be included in the presentation to the national authorities.

**7.16** To achieve the recommended new conceptual design, RES activities should focus on development in the region from a broader perspective, supplementing the synchronous/comparative analysis and the macro view with a process approach to national problems that also includes sector diversity (the micro aspects), placing more emphasis on successful results and the obstacles encountered in the development process.

### **Operational aspects**

**7.17** Formulating development strategy must include an analysis of the relevant sector aspects and national specificities. Accordingly, it should include the active participation of **staff** from the Regional Departments and national governments officials, and should be guided by the division of tasks and mutually complementary skills of the Regional Departments and RES. Although from the RES standpoint this approach may cause some risk of "contamination" of the advisory work with operational concerns, it will make the *encerronn* more relevant to the Bank and the countries. In addition, cooperation in development strategy preparation and execution can reduce the current lack of confidence between the RES and Operations **staff**.

**7.18** The fact that not all *encerronas* included the Bank's Country Office must be avoided in the future. The Country Office's presence at the *encerronas* is key to achieving their objectives.

**7.19** The preparatory work should be consolidated in a document to be agreed upon prior to the *encerrona* according to Bank procedures. The EAR, given its value, cannot be just a digital file for an audiovisual presentation. Its preparation, discussion, and approval slows down preparation of the *encerrona*, but will facilitate its inclusion in the dialogue with the countries and improve the necessary inputs of the Regional Divisions in their ongoing dialogue with the countries.

**7.20** Instead of holding the event in a single day, it could in some cases be done in stages, at different times, with intervals that would allow the participants to prepare their responses to the issues raised, or over several days. During the meeting, sufficient time should be set aside for discussion and for active participation by the authorities and/or local experts. For this to be possible, the meetings would have to focus on certain issues, sectors, and/or problems instead of trying to provide an overview, inevitably a very superficial one, of the region's development problems.

**7.21** Time should also be reserved **for** discussion of macro or social problems from a general perspective, and for specific issues or sectors. In the latter, surely the local authorities and experts from the Bank's Operations Departments have more extensive knowledge, and should participate more.

**7.22** A final document summarizing the *encerrona* should be prepared. This document could be the "Strategic Country Report" **proposed by RES**, incorporating the above recommendations for changes in the conceptual design of *encerronas*.<sup>24</sup> This document would sum up the *encerrona's* contribution to establishing the development strategy, and would represent one input for the dialogue process. It would also be an instrument for evaluation **of** the *encerrona*. The usefulness of providing the country authorities with a copy of the EAR should be studied.

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<sup>24</sup> RES "Prioridades del Departamento de Investigación para el 2000" [Research Department Priorities for 2000], IDB, January, 2000, p. 6.

## ANNEX I

## RESEARCH DEPARTMENT FUNCTIONS AND ACTIVITIES

According to the Inter-American Development Bank Organization Manual, the official document establishing policies and procedures for the organization and the allocation of human resources, organizational codes, and structure and functions of the Bank's various organizational units, including the Bank's Standing Committees, the functions of the Research Department (RES) are as follows:

- Provides advice to Management on economic issues related to operational, policy, or other matters.
- Proposes to the President the research agenda of the Bank on development policies of the Latin American and Caribbean region, coordinates its execution and dissemination.
- Coordinates the preparation of the report on "Economic and Social Progress of Latin America".
- Provides support to the Bank, in coordination with the regional economic advisors, to improve the quality of the economic analyses carried out by the departments, through advice, participation in missions and organization of discussion and dissemination events.
- Reviews and evaluates the quality of the economic research financed by the Bank and authorizes its publication.
- Coordinates the elaboration and implementation of an institutional policy for the selection and development of the Bank economists.
- Maintains contact and collaborates with the academic and research communities and with other international financial institutions, regarding preparation and execution of the research agenda and the updating of the Bank's analytical capabilities.
- Designs and administers mechanisms to encourage research in the Bank, including use of research funds and the participation of visiting scholars.
- Represents the Bank, at the President's discretion, in external economic fora and meetings, seminars, and other events where economic issues of relevance to the Bank are discussed.

A more detailed description of these functions can be obtained from the RES Web site at <http://www.iadb.org/oce/AboutUS.htm>

In the RES self-evaluation carried out under the EAR assessment framework, RES identified three major markets or areas of influence for its activity: the Bank itself, academia, and the countries' policy authorities. Since the EARs are not the only product prepared by RES, Table 1 shows the main activities it carried out for the three markets.

Activity/ Market	<i>Encerronas</i>	SIS	Red Centro	Latin American Network of Central Banks and Finance Ministries	IPES Seminars	Policy Seminars	Red NY-Wash de Asuntos Financieros latinoamericanos	Participation on project approval committees
Bank	YES	YES	NO	NO	NO	YES	NO	YES
Academia	NO	NO	YES	NO	NO	NO	NO	NO
Policy authorities	YES	NO	NO	YES	YES	NO	YES	NO

**RES** activities are an important element in the dialogue with other multilateral institutions, policymakers, and academia, enhancing the Bank's external visibility through its research and advice for the countries.

**RES** has a very positive view of its performance in the academic and policymaker markets, but less satisfactory in the internal Bank market. It attributes this situation to weak links with the rest of the Bank and problems in disseminating knowledge, despite the policy seminars it holds in each of which **30** to **40** Bank professionals participate.

## ANNEX II

### PROGRAMMING AND COUNTRY PAPERS

Country papers (CPs), drawn up by the Regional Operations Departments, consolidate the Bank's view of the context, challenges, and strategies for promoting development over the medium term (an administration) coinciding with political (election) cycles in each member country. The programming process is very similar in all regions, but there are some special features, principally in the case of Regional Operations Department 2.

The starting point for programming is an outline with a preliminary listing of the country's problems and priorities. This initial outline (five or six pages) is prepared by the country coordinator and the country economist and is submitted to a Management Review Committee (CRG). The next phase consists of preparing a preliminary analysis of the macroeconomic context, the challenges, and the Bank's strategy (20 pages) for discussion by the CRG. The CRG approves a preliminary version of the document, which is submitted to the Programming Committee and, once approved, to the country authorities. After clearance by the country authorities, the CP is forwarded to the Bank's Board of Executive Directors for final approval. Contact with the national authorities may occur at several points, **through** missions, during the document preparation process, and not just after its approval by the Programming Committee. The entire process is repeated approximately every three years, depending on the country's election cycle.

In Regional Operations Department 2 (RE2), the process begins a year before presidential elections, with the goal of producing a policy dialogue paper (PDP) shortly before the elections. The PDP is drawn up during the last year of the administration in office. It is an internal **RE2** document, which includes all the contributions of the Bank experts who work with the country. After the election and before the new administration takes office, a meeting is prepared with the president elect's technical team. At that meeting, the issues in the PDP are discussed, and **RES** may or may not be invited. After the new administration takes office, the results of the meeting are reviewed and preparation of the CP is initiated. Thus, in RE2, *encerronas* are part of programming and, as such, ensure some degree of issue coordination.

Regardless of how they are prepared, CPs have a common basic structure, with the following main parts: analysis of the macroeconomic context and the challenges to development, the strategy, and the agenda for dialogue. They are written documents, but technical reports, rather than academic papers or monographs. They include data on the current portfolio and financing programs as annexes.

### ANNEX III

#### ACTIVITIES CARRIED OUT DURING THE EVALUATION PROCESS

The main activities carried out during the evaluation process, with support from outside consultants, were:

- Meetings with **RES** to identify its view of *encerronus*, and its self-evaluation.
- Analysis of **RES**' self-evaluation, detailed in Annex IV, in which **RES** identifies the observable impact of all *encerronus*.
- Meetings with focus groups comprised of professionals from the Country Divisions and functional Divisions that participated in the last programming exercise for the countries for which *encerronas* were held; some OVE professionals were also present at the *encerronus* for the Dominican Republic, Ecuador, and Venezuela.
- Meetings with the country coordinator and/or economist of the four Group C and D countries for which no *encerronus* were held, to determine whether there was a significant difference in programming between the two groups of countries.

The principal issues addressed during the interviews and in the focus groups were: (i) demand for EARs by the Regional Operations Departments; (ii) conceptual design of the EARs with respect to the following features: (a) consistency between the diagnosis and the country's principal problems; (b) internal consistency; (c) consistency between the diagnosis and strategic plan; and (d) suggested improvements in the EARs, with respect to their economic and social conceptual focus, issues addressed, depth, and consistency; (iii) operational and institutional aspects of the EARs concerning the degree of interdepartmental coordination, timing of encerronas in the Bank programming process, and the policy cycles in the countries, role of the respective department and country economists, lessons learned, and suggestions for other uses of EAR information; (iv) EAR impact on Bank programming; (v) impact on the countries' economic and social policy discussions, principally in connection with adoption of the **RES** proposals.

## ANNEX IV

### RESULTS OF FOCUS GROUP MEETINGS

4.1 During the weeks of October 30 and November 6, 2000, meetings were held with one or more members of the focus groups consisting of, for each country, the coordinator, the economist, and the professionals of the functional divisions that participated in the country's most recent programming exercise. Meetings were also held with the Manager of RE2, the SO2 Division Chief, and the Executive Director for Costa Rica. Of the 10 countries for which *encerronas* were held that were reviewed for this report, in five cases extensive interviews were conducted with focus group members (Panama, Paraguay, Venezuela, Ecuador, and Trinidad and Tobago). In two cases (the Dominican Republic and Costa Rica), other *encerrona* participants were interviewed, and in three other cases (Guatemala, Honduras, and El Salvador), a complete interview could not be conducted because the country coordinators or economists were away. The interviews were structured around the five points of the terms of reference: (i) demand for EARs on the part of the Regional Operations Departments; (ii) EAR conceptual design (iii) operational and institutional aspects of EARs, (iv) EAR impact on country paper preparation, and (v) EAR impact on economic and social policy discussions in the countries, principally within the governments. Some of these points were more important than others, but other related responses and comments were also included.

#### 1. Characteristics of the demands for *encerronas*

4.2 In all cases, *encerronas* are the result of interaction between the supply of a "product" represented by RES desire to supply it and demand on the part of the regions and ultimately the governments. The interviews suggest that in a first phase there are elements of initiative by RES to disseminate the product, and in a second phase intermediate demand is consolidated by the Manager and Division Chief of Region 2 (SO2), with the countries also becoming more familiar with the product.

4.3 In the case of Panama, the decision-making process for initiation of the *encerrona* involved offering the product to the authorities through the respective Executive Director and Representative of the Bank, who act as liaisons. The issues to be addressed and implementation were established at those meetings. There were marked differences in the government's inclination and interest in the menu of EAR issues between the 1996 and 1999 *encerronas*. In 1996 there was genuine demand for the *encerrona* as part of the incoming administration, but in 1999 there was a more passive and reluctant attitude toward the types of recommendation that would be made at it.

4.4 In the case of Paraguay, the *encerrona* was again the result of interaction between supply and demand. RES offered a finished product not specifically tailored to Paraguay. Behind the demand of Regional Operations Department 1 was the idea of measuring impact and timing, but the department wanted to organize something with the participation of several other Bank departments to review how the Bank saw Paraguay, generate dialogue, and get feedback from the country on its options.

4.5 In the case of Venezuela, the *encerrona* had a special feature: it was held before the elections as an exercise, and the prospective cabinets of the presidential candidates were invited to participate. The *encerrona* took place at the Region's request as a preliminary dialogue with the potential economic policy matters.

4.6 The case of Ecuador was also atypical. It began with outreach by the Bank's Representative, at the government's request, to indigenous communities and groups that had been lobbying on major policy issues. They considered the Bank a sound, trustworthy interlocutor, because of its management of funds

and programs, with which to discuss their macroeconomic problems and policies. The special feature of this *encerrona* was that it involved representatives of indigenous groups, without the participation of the government, but with its consent.

4.7 For the country coordinator and economist for Trinidad and Tobago, the *encerrona* was a **RES** initiative. RES contacted the Region 3 Manager about who would be interested in holding an *encerrona* and suggesting that they review the possibilities in consultation with the country authorities. Region 3 clearly wanted to be involved in this initiative, but that involvement was limited, with the initiative being left to **RES**.

4.8 During the interview with the Region 2 Manager it was mentioned that the *encerrona* was initially supply-driven by the Chief Economist, with inadequate integration of the content and message of what was transmitted. The *encerrona* impact on the other departments' activities was not always positive. Then, based on experience, the *encerronas* started to move toward a more complementary and cooperative approach. The region initiates the dialogue, then contacts RES and provides it with the document. Using information from their databases the two perform a comparative analysis. Next a reconciliation meeting is held and finally, the *encerrona* takes place.

## 2. Encerrona design

4.9 Interviewees were asked their opinions on the relevance and quality of *encerrona* design in terms of the focus and content, use of macro and sector indicators, and relevance of the hypotheses and proposals to the country's special circumstances. They were also asked for suggestions for improving the diagnosis, conceptual focus, issues addressed, depth, and consistency of the *encerronas*. The majority of those surveyed approved of the quality of the material with respect to the use of comparative indicators and macroeconomic data. At the same time, in several cases, the country diagnoses and topics selected were questioned as based on preestablished hypotheses and ignoring factors that were more relevant to the country from the country economist perspective. Several examples were cited.

4.10 In the case of Panama, the *encerronas* combined treatment of major issues with the opportunity to meet with decision-makers in an effort to generate a dialogue or debate that would enhance learning about economic policy options. "In general, issues raised were relevant to the country." The interview did not result in precise criticisms of *encerrona* content, but did yield some observations about the use of the comparative data and the conclusions drawn: numbers were used to justify a predetermined position that seemed very definite at the presentation. A comment was also made about the intense use of PowerPoint and the only source of data being the Bank, when other sources could have been obtained, especially on poverty. In the interviewee's opinion, the fiscal sustainability issues are the most appropriate, while reform, privatization, and social security are less appropriate. A lack of consistency was mentioned between the relevance of the hypotheses and proposals to the country's particular circumstances, in that the meetings concentrated on reform and other "ideological" issues. In the case of decentralization, in its eagerness to repeat the same recommendation, **RES** failed to consider that, for a country like Panama, decentralization is less relevant for political and geographical reasons than in other cases. Lastly, and again in general terms, it was stated that the *encerrona* diagnostic studies should be carried out in more detail with the officials involved in country programming and that they should focus more on assessing options than on proposing an agenda for reform.

4.11 With respect to the Paraguay *encerrona*, the design was again criticized. First, it was mentioned that the *encerrona* diagnosis was largely detached from some of the country's main problems, and instead focused on a set of issues reflecting an orthodox view of macroeconomics. The diagnosis failed to explicitly address the problem of the informal economy, ignoring this aspect for an economy that cannot be analyzed outside the context of an informal economy. Misstatements were made based on mere

observation of data. For instance, the saving-investment process was deemed acceptable, ignoring special the particular way national accounts measure investment and how the process depends on construction in an economy subject to informal and illegal activities, not considering the fact that very little investment is being made in machinery and equipment in the country. It was suggested that for the *encerronas* to be more effective, a preliminary diagnosis of the country should be conducted by economists with specialized knowledge of it, in order to avoid bias in the selection of issues (to prevent a situation of “issues in search of a country” rather than “a country in search of relevant issues”).

**4.12** In the case of Venezuela, the interview revealed that, in general terms, *encerrona* design was reasonable, given that it was carried out under special conditions (candidates, not the elected government) and the macrofinancial issues raised were important at that time. But there were also observations on improving the relevance of the issues addressed to the country’s problems. First, the objective of the *encerrona* for Venezuela was to provide macroeconomic advice based on relevant macro problems that were of concern at the moment, such as the volatility of the international financial markets after the Russian devaluation and default, the impact of oil price volatility on Venezuelan economic policy, and real problems in the provision of infrastructure, education, and decentralization. The *encerrona* focus and content were considered appropriate from a macro perspective but very relative and somewhat less appropriate in the sense of being more aligned with a comparative presentation on Latin America than with the country’s specific economy issues. This shortcoming was evidenced in the selection of macro and sector indicators. The consistency of the *encerrona* hypotheses and proposals with the country specificities was, therefore, considered relative and limited to the macro problems of the moment. The suggestions for improving the *encerronus* were that the diagnosis should result from more open interaction with the country division, given that the country division makes the diagnosis and then the RES economists take the international issues, make comparisons, and identify the best practices for the problems that have been raised. All those involved with the country must interact in this process beforehand. Such an approach would shift the conceptual focus toward issues that are consistent with the diagnosis of what the country’s most important problems are from the Bank’s perspective and with a strategic vision.

**4.13** Ecuador is another atypical case, this time because the government was excluded and interaction was with representatives of the indigenous communities. Perhaps in this case the bias toward macroeconomic issues was more appropriate, because the original demand was specifically for an explanation of them, given the importance of the debate on dollarization that was taking place in the country. The opportunity to have this *encerrona* was important to those interviewed in terms of providing explanations and a professional analysis that helped the indigenous groups lower the profile of their opposition to dollarization. Issues involving the utility infrastructure and housing sectors, also of interest to the indigenous groups, were included, because they wanted to study means of participating in these productive sectors in the future.

**4.14** In the case of Trinidad and Tobago, problems were mentioned with the *encerrona* content focusing on comparisons among countries. Certain comparisons, such as that of the degree of progress on reforms, give the incorrect impression that everything had been done. In other words, the comparative table showed that Trinidad and Tobago was much more advanced than the average. Taken literally, this observation inhibited discussion, and does not show where problems lie (and there are indeed problems). Likewise, the aggregate data do not indicate what specific problems the country has. An example of an error is the conclusion that the country has problems with work force skills, because other vicissitudes or country specificities that would change that perception have not been reviewed.

**4.15** In the case of the Dominican Republic, a bias toward macrofinancial issues and neglect of development were again pointed out. Conversely, in the case of Costa Rica, the selection of topics was deemed good and the agenda established by RES more open. However, issues relevant to Costa Rica were

ignored, such as the economy of natural resources and tourism, which is the country's main source of foreign exchange. The latter concern was passed on to RES, whose response was that the issue might be relevant but they were not well versed in the matter. In this case, it was again noted that the issues that may be relevant but very country-specific (natural resources in Costa Rica or the informal economy in Paraguay, for example) and that cannot be reflected in country comparisons tend to be ignored by RES when *encerronas* are prepared.

**4.16** For the Region 2 Social Programs Division, the *encerronas* held by RES in the region can be considered a very important space that provides a comprehensive view of the country's strategic problems from a macro, sector, and institutional perspective. However, they should be used to take the next step in what the division considers the segue from general issues to programming, through a preliminary strategic programming stage they are developing, **known** as the Social Agenda Dialogue (DAS).

**4.17** From the division's standpoint, *encerronas* are a good product, in terms of content and format, in that they place the country in a comparison from which relevant issues emerge, with a diagnosis that generates a reaction from the authorities. Perhaps too many issues are covered and there is information overload. There are no problems with the *encerrona* repeating the issues from country to country inasmuch as the comparative analysis is one of its advantages and they are useful for all the participants. The advantages of the *encerrona* are that it continues to be a shock strategy in the discussion and that it does not go into detail. *Encerronas* should therefore not delve into specific issues within the social sectors (for example, discussing whether an incentive system for teachers is the right one) because the Social Programs Division staff are the ones who know those issues best. Accordingly, *encerrona* content could be revised to make them less overwhelming, but not to the point of going into specific issues in depth. Discussing macrofinancial architecture issues and the micro incentive for teachers at an *encerrona* would be too broad and overwhelming.

**4.18** Lastly, it was mentioned at several interviews that the PowerPoint presentation included too many figures and was difficult to follow. Some participants found it a very vibrant, enthusiastic presentation. Others described it as almost a private show that was impressive even when not well understood.

### **3. Operational and institutional aspects**

**4.19** This section covers the responses to questions about interdepartmental coordination for preparation and presentation of *encerronas* and the role of RES and the country coordinators and economists. The interviews indicated a serious lack of coordination, which had improved over time but entailed serious operational and institutional problems. These views on the need for coordination contrast with the questioning of coordination in the interview with RES, pointing to a more serious problem of how institutional roles are being interpreted.

**4.20** In the case of Panama, there were some positive developments, considering that at the first *encerrona*, the country economists were not invited to discuss the issues to be presented. The interview revealed that RES had an isolationist attitude at the first *encerrona*. The case of Panama showed poor coordination and supported the hypothesis that RES did not intend to interact with country programming officials. The lessons learned are that coordination should be introduced ex ante into *encerrona* design and preparation, and that the view of the country economists should be taken into account, especially to prevent misinterpretation and to avoid statements or agenda items that will not benefit the dialogue with the country.

**4.21** In the case of Paraguay, according to the interview, the Regional Manager's original idea, which triggered the demand for the *encerrona* and involved departmental interaction, clashed with the RES intention of offering a finished project, which ultimately prevailed. In fact, the country economists and

department experts were working on the original idea when “it changed mid-way”. “The Chief Economist suggested that what was being done had nothing to do with experience in Central America,” while “the focus group’s view was that there should be more sector and global diagnosis, including possible economic policy responses”. The Chief Economist’s position eventually prevailed, and “the Region withdrew” from the *encerrona* preparation and it was decided that a “that a show with an orthodox view would be done” (sic).

**4.22** All the Region’s economists and experts participated passively in the Paraguay *encerrona*, not because they did not want to participate more, but because, given the way the presentation was organized, “there was no opportunity or time for discussion.” This was also true for the government, which remained silent throughout the presentation and then asked almost no questions. When asked whether the questions or inconsistencies in some *encerrona* observations or hypotheses discussed earlier in the design section, such as aggregate savings and investment, were mentioned to **RES** during or after the *encerrona*, interviewees said that “they managed to mention [them] to the Chief Economist at lunch after the *encerrona*”, but that he showed no interest, made no comment, and indicated no intention of clarifying the matter later.

**4.23** According to the views expressed, the main lesson learned from the Paraguay case is that the coordination problems in the preparation and subsequent monitoring of *encerrona* results are the responsibility of **RES** because of its clear intention to prevent more open interaction with the departments and to ignore potential contributions that would make *encerrona* content more relevant to the country’s problems.

**4.24** By contrast, there was interdepartmental coordination in the case of Venezuela, since **RES**’s role was to prepare the general presentation, the macro issues, and issues such as education, while the Region prepared the discussion of decentralization. However, it was explicitly pointed out that the lessons learned from the Venezuela *encerrona* are that more coordination on issues is needed and that the *encerrona* should not be an activity in which **RES** goes ahead and says what it thinks, with no regard for the Bank’s work.

**4.25** Coordination problems were also mentioned in the case of Trinidad and Tobago. To those interviewed, a useful *encerrona* requires prior preparation within the Bank, with more in-depth interaction. It should also include a report instead of or in addition to the PowerPoint presentation. The *encerrona* must be a product of the Bank and not of a department. According to those interviewed, the coordination problem has to do with the Bank’s history. “The **RES** people think they are better economists than the rest and that they don’t have to listen to what they assume is incorrect.”

**4.26** The case of Ecuador should be studied carefully because of its unusual nature, but it does demonstrate some coordination in the preparation and execution of the *encerrona*, since **RES** was responsible for presenting the macroeconomic issues and the country economist was responsible for presenting the projects. In the case of Costa Rica, there was a prior meeting at which **RES** presented the content of the EAR and observations and comments were obtained.

**4.27** The type of coordination suggested by the Region 2 Social Programs Division is different and reflects its view of how *encerronas* should change. For an *encerrona* to be effective, a comprehensive approach to “the next step” is necessary, consisting of a more selective and strategic analysis of social spending from a structural and multisectorial perspective. The *encerrona* should provide the framework for start up. The division is working on what it considers segueing *encerronas* towards those issues through the DAS, which, like *encerronas*, is also carried out at the highest level, including the government communication officials. To this end, the division uses **RES** issues and information, adding detailed content and beginning the segue toward the operations work, but first obtaining a comprehensive

and strategic view (DAS). This process has not succeeded to date because of a lack of coordination and because operations meetings should be proposed precisely at the *encerronas* to continue the process. From the outset, *encerronas* contribute what **RES** does best, which is comparison, strategy, and communication of policies, contributing a “choreography” that should be used in operations meetings.

**4.28** In the opinion of the Region 2 Manager, experience in recent years has shown that RES has tended to operate independently of the rest of the Bank. Over time, it has been asked to ensure more complementarity. This process must continue, because if it does not, the *encerronas* will lead to an unsatisfactory situation. RES wants to give policy advice to the governments independently, forgetting that it is part of the Bank. If this situation is corrected, RES can realize its potential, as a source of economic opinion for the Bank that it did not used to have.

#### **4. Encerronas contribution to country programming**

**4.29** This section summarizes the opinions of the interviewees on the *encerronus* contribution to country programming and country papers, taking into account the advantages or difficulties of incorporating *encerronus* hypotheses or proposals.

**4.30** Programming in Region 2 begins a year before a change in administration and is headed by the Country Office. A dialogue is initiated with each sector of the Bank, input is obtained from the various officials involved in the country, and a policy dialogue paper (PDP) is prepared a month before the elections. Then a meeting is scheduled with the transition teams, including the president and the economic teams. That is a one-day meeting which is open for issues and information and includes the PDP. The *encerrona* is part of this process. The RES team prepares a presentation from an international perspective, while the country team prepares a presentation from a sector perspective. A month after the new administration takes office, the meeting with the administration is evaluated, and on that basis country paper preparation is initiated. The *encerronas* are very useful tools for this process, because they help develop the relationship with the country on the basis of a smooth dialogue on relevant issues. *Encerronas* meetings work well with small countries that require a comprehensive approach that includes macroeconomic and sector considerations. However, large countries need a more sector-oriented, specialized focus. This is the case for Mexico, which held an *encerrona* this year exclusively on social policy issues.

**4.31** Based on its experience with the *encerronus*, the Region 2 Social Programs Division has decided to have its **own encerronas** on social policy as more of a pre-programming activity than the **RES encerronas**, and an interface between the general *encerrona* and programming. These retain features similar to those of the **RES encerronas** with respect to timing (new government), PowerPoint presentations to encourage dialogue and strategic thought, content grounded in services (context, common threads, social sectors, SO2 services), with aide-mémoires of the outcome, and sector specialists who continue the dialogue at the project level after the meetings. In SO2's opinion, this development shows how *encerronas* have been changing the products in regional programming into more strategic products like the **RES encerronas**, giving rise to other *encerronas* that are more directly involved in programming.<sup>1</sup> The best *encerrona*, as a test case for the new approach (including the Social Agenda Dialogue), was the one for Guatemala.

**4.32** In the case of Panama, the **1999 encerrona** had very little positive impact on programming because the authorities rejected its content and orientation. This hurt the programming by hampering

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<sup>1</sup> “Social Agenda Dialogue (DAS), Brief for CRG”, 4 February 2000, RES2/SO2.

dialogue. The opposite occurred with the 1996 *encerrona*, where the incoming administration was willing to buy the discourse and action behind the *encerrona*.

**4.33** According to the interviewees in the case of Paraguay, their experience is that given the conditions in which the *encerrona* was held, “no impact on country programming can be attributed to it”. In their opinion, programming is a process, while *encerronas* are an independent event.

**4.34** In the case of Venezuela, the interviews clearly indicated that *encerronas* have very little to do with country programming. The objective of the Venezuela *encerrona* was perceived as to provide macroeconomic advice with little subsequent impact. If *encerronas* are seen as a brainstorming exercise with elements of mass marketing whose purpose is to generate discussion and debate, it may, in a way, be independent of programming. However, if the idea is to create a genuine constructive policy dialogue, then it must be approached in terms of country programming, with prior diagnosis by the Region. To the economists involved in programming, *encerronas* left little to learn, given the minimal dialogue they generated.

**4.35** *Encerrona* independence from programming was also noted in the interviews on Ecuador, even though it was due to the atypical nature of that case. The same observation was made in the case of Trinidad and Tobago, although poor coordination between the *encerrona* and programming was also noted.

## **5. Encerronas contribution to country dialogue**

**4.36** The last aspect addressed in the interviews concerned the *encerrona* contribution to the dialogue between the Bank and the country and between the government and Bank officials involved in strategic planning. The channels for dialogue are diverse, and the *encerronas* are a visible means of generating that dialogue. The influence of *encerronas* on discussion and decision making on economic and social policy requires consultation with the participants in the governments that is not taking place (or is only available in four questionnaires, just two of which are relevant to this study). The following views were expressed in the interviews with focus groups and other staff who participated in the process.

**4.37** In the case of Panama, the interviews revealed diametrically opposed opinions on the quality of *encerronas* as an instrument for dialogue. The reason for the discrepancy was the different policy contexts in which the *encerronas* were held. Although both contained the same thematic language, they produced opposite results. At the October 1996 *encerrona*, the president and his administration were pro-market and pro-structural reform, with a clear “demand” for the *encerrona* type of message. As a result, the *encerrona* had a positive impact and complemented programming. At the August 1999 *encerrona*, the opposite occurred: the president and his administration advocated a fight against poverty and increased public spending and were hostile to pro-market and pro-reform policies. The same message was highly counterproductive, not just because of the confrontation at the *encerrona* itself, but because of the breakdown of dialogue with the authorities over the following six months and the need to slowly restore it. The content of the *encerrona* was thus inappropriate because it failed to foresee its negative impact, despite the fact that RES was warned that this would happen. It should have explored how to interact with the administration in that situation by giving it options or alternatives to help it better see the policies available to meet its objectives. The issues addressed were perfectly valid, and may have been properly raised in RES’ view, but they suffered from the strategic view of the *encerrona* itself. The advantages and disadvantages of the hypotheses, proposals, and recommendations were clearly illustrated in a single country (Panama) when two administrations with conflicting perspectives had to be dealt with in a three-year period. The same recommendations were made, with a pro-reform approach, and were met with agreement in one case and open rejection in the other. The change in results in Venezuela probably reflected same negative influence from the 1996 experience. For example, the proposal to reduce tariffs

was enthusiastically implemented by the then government, whereas in 1999, in part because of interest groups supporting the administration, the tendency was to swing in the opposite direction.

**4.38** In the case of Paraguay, the interviews indicated that the *encewona* prompted no reaction from the government and had no impact on the country's dialogue. Subsequent policymaking and institutional events would have completely diluted any such possible impact, even if the *encewona* had had some effect, which it did not. By contrast, a visit by a government delegation and parliamentary delegation to Washington had a major impact on the dialogue and on the joint strategic assessment with the administration, in various issues in Paraguay, with Bank departments and economists experienced in Paraguay participating in this activity.

**4.39** In the case of Venezuela, it was considered somewhat counterproductive for the *encerrona* to be organized with an almost exclusive focus on the Chief Economist's presentation, given his history in Venezuelan economic policy, which did not provide dialogue. In more general terms, it was mentioned as somewhat dangerous for the Bank to allow only RES go to *encerronas* outside the framework of country dialogue and programming. The *encerronas* generate ideas and expectations of Bank strategies that are not consistent with the regions' programming work. Questions were also raised, based on the Venezuelan experience, about whether it was appropriate to hold the *encerronas* before elections.

**4.40** The *encerrona* for Ecuador, given its special nature, sought to further the country dialogue laterally, by opening up a channel of communication with an important segment of the society to which the government had had difficulty explaining the macroeconomic policy situation and strategy. However, it did not prevent subsequent clashes on policy between indigenous groups and the government, to the point that the government asked the Bank (and the Bank in turn asked Region 3) to suspend the dialogue with the indigenous groups because of their intransigent attitude toward the institutions. RES conducted an evaluation of that *encerrona* supporting a favorable perception of it. Of the eight questionnaires sent out, five responses were received, and all stated they "strongly agreed" or "agreed" with the statement that the *encerrona* had opened up a space for dialogue between the government and the Bank.

**4.41** In the case of Trinidad and Tobago, a negative view of the *encewona* impact on dialogue with the country was confirmed. The dialogue was viewed as a process, whereas since the *encerrona* consisted of showing up to brainstorm and then leave, made it seem of little use for dialogue, especially because there was little coordination and more talking than interacting. Using a great deal of aggregate data, provided in a very short time span, prevented specific country-issues from being addressed and inhibited dialogue.

**4.42** By contrast, for the Region 2 Manager, *encerronas* were very useful instruments because they helped develop the relationship with the country on the basis of a smooth dialogue on relevant issues. The *encerrona* worked well with small countries that require a comprehensive approach that includes macroeconomic and sector aspects. Conversely, the large countries need a more sectorial, specialized focus. This was the case with Mexico, which held an *encewona* exclusively on social policy issues this year (not assessed in this report).

**4.43** In addition, for SO2, the element of dialogue is strengthened by *encewonas*, but only if the RES *encerronas* are associated with the Social Policy Dialogue. However, this approach has worked only in some cases, such as Guatemala.

**ANNEX V**  
**COMPARATIVE TABLE OF ISSUES IN ENCERRONAS, COUNTRY PAPERS, AND OPERATIONS PROGRAM**

**TRINIDAD AND TOBAGO**

<b>Encerrona</b> October 1997	<b>Country paper</b> July 1997	<b>Project pipeline</b> Country paper 1997-99	<b>Approved operations by</b> sector, 1998-2000																
<p><b>Diagnosis:</b> Modest growth, unemployment, inflation stabilized, strong fiscal situation, major structural reforms implemented (trade, taxes, and privatization), educated population, financial market adequate.</p> <p><b>Problems:</b> inadequate integration into the world economy, volatility, loss of competitiveness, and low level of higher education.</p> <p><b>Proposals:</b> increase liberalization of trade, improve tax collection so that tariffs can be lowered to promote competitiveness, emphasize higher education, regulate privatized utilities.</p>	<p><b>Diagnosis:</b> prolonged decrease in per capita income, persistent structural economic problems and high levels of unemployment and poverty. Dependence on oil and gas causes structural economic problem.</p> <p><b>Proposals:</b> (1) Achieve sustainable economic growth by increasing the rate of fixed capital formation, increasing human capital formation (secondary education and health), and diversifying the economy (agriculture, tourism, manufacturing), (2) Reduce poverty and unemployment through economic growth and diversification of production; (3) Improve public sector efficiency; and (4) Improve natural resource management.</p>	<p><b>Agricultural investment program;</b></p> <p><b>Tourism development program;</b></p> <p>Secondary education program;</p> <p>Social sector reform program;</p> <p>Microenterprise development program;</p> <p>Local government strengthening program;</p> <p>Petroleum waste management program;</p> <p>National sanitation program;</p> <p>National solid waste management program</p>	<p>Total for the period in millions of US\$</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Communications</td> <td style="text-align: right;">0.81</td> </tr> <tr> <td>Education</td> <td style="text-align: right;">105.14</td> </tr> <tr> <td>Urban development</td> <td style="text-align: right;">0.14</td> </tr> <tr> <td>Microenterprise</td> <td style="text-align: right;">0.01</td> </tr> <tr> <td>State modernization</td> <td style="text-align: right;">2.55</td> </tr> <tr> <td>Other</td> <td style="text-align: right;">3.52</td> </tr> <tr> <td>Tourism</td> <td style="text-align: right;"><u>1.33</u></td> </tr> <tr> <td><b>TOTAL</b></td> <td style="text-align: right;"><b>113.50</b></td> </tr> </table>	Communications	0.81	Education	105.14	Urban development	0.14	Microenterprise	0.01	State modernization	2.55	Other	3.52	Tourism	<u>1.33</u>	<b>TOTAL</b>	<b>113.50</b>
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The contents of the *encerrona* and the country paper are very different. The *encerrona* has a more macro focus and the country paper has a more structural focus. The *encerrona* places more emphasis on integration into the international economy and suggests main reform that do not necessarily conflict with country paper but with a different focus.

With respect to the proposals in the *encerrona* and approved operations, the only similar issue is education, but with a totally different focus. The *encerrona* emphasizes post-secondary education, while the approved operation is to improve secondary education.

Between 1998 and 2000, the only approved operation that was a loan is the Secondary Education Program. All the other operations are technical cooperation projects.

## ANNEX V

## COMPARATIVE TABLE OF ISSUES IN ENCERRONAS, COUNTRY PAPERS, AND OPERATIONS PROGRAM

## PARAGUAY

<i>Encerrona</i> September 1998	Country paper April 1998	Project pipeline Country paper 1998-1999	Approved operations by sector, 1998-2000																						
<p><b>Diagnosis:</b> Control of inflation, low domestic debt, economic growth has slowed despite the high investment level and high poverty rate. Slow progress in education and large informal sector.</p> <p><b>Problems:</b> Agriculture growth has slowed and trade is on the decline. There is a lack of public goods, which decreases productivity.</p> <p><b>Education:</b> low average number of years of schooling, with few going beyond primary school.</p> <p><b>Proposals:</b> 1) increase provision of infrastructure through privatization, decentralization urban services to municipal level, and increase of investment by the central government. 2) increase investments in education with strengthening of the user, autonomy for the provider (school making operating decisions and the central government providing results-based funding and setting standards). 3) fiscal policy: pension reform through individual pension accounts. To address vulnerability to international crises (fiscal and financial), regain fiscal control, ensure capital development of the Central Bank, and resolve the banking crisis.</p>	<p><b>Diagnosis:</b> Low economic growth rates because of exhaustion of the agricultural frontier and deceleration of agricultural growth with serious social consequences, exacerbation of underemployment and unemployment, and expansion of the informal sector. Growth is also inhibited by fiscal, monetary, and external problems.</p> <p><b>Proposals:</b> Development and modernization of the productive structure, continuation of State modernization and reform of the social sectors, and rural development.</p> <p><b>Principal strategic areas of intervention:</b> support for pre-school and primary education, physical infrastructure, consolidation of financial system reforms, consolidation of achievements in controlling inflation by broadening the tax base and streamlined public spending, cautious decentralization of social service delivery, primary health care program.</p>	<p>Small cotton farm development program; <b>Preinvestment program;</b> Program for competitiveness of microenterprise and small business markets; Program for modernization of agricultural and forestry development; National rural roads program II; Agricultural modernization and diversification</p>	<p>Total for the period in millions of US\$</p> <table border="0"> <tr> <td>Agriculture</td> <td>35.90</td> </tr> <tr> <td>Education</td> <td>42.30</td> </tr> <tr> <td>Industry</td> <td>1.39</td> </tr> <tr> <td>Social investment</td> <td>35.54</td> </tr> <tr> <td>Microenterprise</td> <td>0.72</td> </tr> <tr> <td>State modernization</td> <td>22.98</td> </tr> <tr> <td><b>Preinvestment</b></td> <td><b>5.0</b></td> </tr> <tr> <td>Environ. Protec.</td> <td>8.37</td> </tr> <tr> <td>Other</td> <td>0.5</td> </tr> <tr> <td>Transportation</td> <td><u>167.00</u></td> </tr> <tr> <td><b>TOTAL</b></td> <td><b>319.70</b></td> </tr> </table>	Agriculture	35.90	Education	42.30	Industry	1.39	Social investment	35.54	Microenterprise	0.72	State modernization	22.98	<b>Preinvestment</b>	<b>5.0</b>	Environ. Protec.	8.37	Other	0.5	Transportation	<u>167.00</u>	<b>TOTAL</b>	<b>319.70</b>
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## ANNEX V

**COMPARATIVE TABLE OF ISSUES IN ENCERRONAS, COUNTRY PAPERS, AND OPERATIONS PROGRAM**

Observation: Different but not conflicting views and objectives. *Encerrona* more macro and pro-reform. CP more oriented toward the country's structural problems (e.g., informal economy). The *encerrona* proposed ambitious reforms, which in many cases had no specific counterpart in lending program.

The two operations that are related to *encerrona* issues are education and tax administration. The two loans total US\$46 million and represent approximately 14% of the total of operations approved in the country. In terms of education, an important aspect that the *encerrona* failed to consider was that Paraguay is bilingual, which means substantial differences in spending for teacher training and for the institutional apparatus itself. In addition, the *encerrona* viewed as highly negative the fact that most of the education budget goes to payroll. But the project viewed it as appropriate in countries with Paraguay's level of development. The tax administration project is more about strengthening the administrative and operational mechanisms of tax collection and controlling expenditures. At the *encerrona*, in addition to more efficient tax collection, a change in the tax structure per se was proposed.

## ANNEX V

## COMPARATIVE TABLE OF ISSUES IN ENCERRONAS, COUNTRY PAPERS, AND OPERATIONS PROGRAM

## COSTA RICA

<i>Encerrona</i> March 1998	Country paper August 1999	Project pipeline Country paper 1999-02	Approved operations by sector, 1998-2000
<p><b>Diagnosis:</b> Stable economy, with low unemployment, moderate inflation, good distribution of income, achievements in education, and low mortality rate. But growth is slowing, investment unstable, and the poverty rate constant.</p> <p><b>Problems:</b> Fiscal problem: procyclical expenditures, low public investment, high public debt, low quality of tax institutions. Bias against domestic financing since the foreign debt is rated higher than domestic debt. Social security system is a time bomb. Human capital growing slowly because education spending is reasonable but unbalanced between primary and tertiary, with efficiency problems. Lack of structural reform such as trade liberalization, inadequate tax and financial reform, lack of privatization, labor reform.</p> <p><b>Proposals:</b> Exchange domestic debt for foreign debt, pension reform, increase privatization, education reform through decentralization with strengthening of users, autonomy for providers, and redefinition of the State's role, decrease tariff scaling, privatize State banks, improve banking oversight, tax reform, labor reform for more flexibility in separation.</p>	<p><b>Diagnosis:</b> Social indicators better than counterparts, stable but slowing growth caused by slow implementation of reforms, which help increase productivity of the factors of production.</p> <p><b>Proposals:</b> Consolidate structural reforms, modernize infrastructure, strengthen human capital, and promote activities that generate foreign exchange.</p>	<p>Reform of the financial sector; Regularization of cadastre and land registry; Improving efficiency in social spending; Energy and telecommunications structure reforms; Pilot project for alternative educational services; Fiscal reform; Program for the Municipality of San José.</p>	<p>Agriculture 0.24 Sci/technology 1.5 Education 0.1 Energy 49.5 Industry 0.15 Social investment 0.88 Microenterprise 1.67 State modernizat. 65.7 Other 0.05 Env. Protection 1.67 Health 0.15 Sanitation 0.11 Transportation <u>6.80</u> TOTAL</p>

Observation: Somewhat similar views and objectives but with differences in issues and interpretation of reforms.

There is only one operation that has any connection with the *encerrona* proposals, a technical cooperation project in the amount of US\$20,000 for the study of a BOT sewage treatment plant in San José.

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## COMPARATIVE TABLE OF ISSUES IN ENCERRONAS, COUNTRY PAPERS, AND OPERATIONS PROGRAM

## HONDURAS

<p><i>Encerrona</i></p> <p><b>July 1998 (before Hurricane Mitch)</b></p>	<p><b>Country paper</b></p> <p><b>October 1999 (after Hurricane Mitch)</b></p>	<p><b>Project pipeline</b></p> <p><b>Country paper</b></p> <p><b>1999-2001</b></p>	<p><b>Approved operations</b></p> <p><b>by sector, 1998-2000</b></p>
<p><b>Diagnosis:</b> Economic growth insufficient due to insufficient investment, low productivity, and slow growth of education.</p> <p><b>Problems:</b> Slow reforms, excess scaling of tariffs, excessive public debt, serious problems with banking oversight, little privatization, and little decentralization</p> <p><b>Proposals:</b> 1) Greater trade liberalization through a flatter tariff structure, eliminate directed credit, privatize State banks, and improve oversight, 2) Allow the private sector and the <i>municipios</i> to participate in investments in order to reduce public debt, 3) Policy decentralization, pension reform, health, and education. Education reform based on decentralization, strengthening of users, autonomy of providers, and redefinition of the government's role, increased flexibility in labor market, and pension system reform.</p>	<p><b>Diagnosis:</b> Hurricane Mitch caused widespread devastation of the infrastructure, production capacity, agriculture, schools, health centers, homes, furnishings, and personal belongings, in addition to the loss of lives. Consequently, the IDB redirected its economic and social development program toward reconstruction and transformation of the Honduran economy.</p> <p><b>Proposals:</b> Support preparation and execution of the Master Plan for National Reconstruction and Transformation; promote international financial and technical cooperation; allocate the limited available concessional resources to support public spending in social sectors, reconstruction of water supply and sewerage systems, housing and roads. Concessional resources and institutional strengthening of the units responsible for project execution are necessary for project implementation.</p>	<p>Investment in water and sanitation;</p> <p>Emergency road and water infrastructure;</p> <p>Transition and social protection program;</p> <p>Post-hurricane housing program;</p> <p>Road rehabilitation and sustainability II;</p> <p>Legislative branch modernization;</p> <p>Electrical system rehabilitation;</p> <p>Judicial branch loan;</p> <p>Housing program;</p> <p>Health sector reform program;</p> <p>Institution strengthening, education sector;</p> <p>Rural sector infrastructure;</p> <p>Community development program;</p> <p>Development of Sula area.</p>	<p>Agriculture 30.07</p> <p>Education 23.35</p> <p>Forestation 0.15</p> <p>Urban dev. 75.67</p> <p>Industry 2.79</p> <p>Social invest. 178.50</p> <p>Microenterprise 2.01</p> <p>State modern. 22.82</p> <p>Other 1.29</p> <p>Preinvestment 12.00</p> <p>Env. protection 0.83</p> <p>Health 36.15</p> <p>Sanitation 27.69</p> <p>Transportation 27.61</p> <p>TOTAL 440.93</p>

Observation: Views and objectives differ in large part because of the drastic change of scenario due to Hurricane Mitch.

The institutional reorganization of basic health sector services project and the basic education project, representing 13% of all Bank financing during the period under consideration, are consistent with the basic principles of the *encerrona* for the health and education sectors in that they support decentralization of the services.

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## COMPARATIVE TABLE OF ISSUES IN ENCERRONAS, COUNTRY PAPERS, AND OPERATIONS PROGRAM

## VENEZUELA

<p><i>Encerrona</i> October 1998</p>	<p>Country paper October 1999</p>	<p>Project pipeline Country paper 1999-2000</p>	<p>Approved operations by sector, 1998-2000</p>
<p><b>Diagnosis:</b> High per capita income, moderate concentration of income, good infrastructure, and major social gains. However, serious deterioration of the economic situation, high inflation, and education is a serious problem.</p> <p><b>Problems:</b> One of the most volatile countries. Consequently, there is less growth, poverty is on the rise, there is more inequality and little progress in education. In-depth trade liberalization but some tariffs have increased. Financial reform: major progress but lack of oversight, prudential regulation, redefinition of public banking, and capital market development. Low tax collection. Needs to extend privatization. Needs deeper labor market reform to increase flexibility.</p> <p><b>Proposals:</b> Privatize water and eliminate monopoly on hydrocarbon distribution. Agreement for stability: Monetary and exchange policy: adoption of irreversibly fixed exchange rate, legalization of deposits in dollars. Fiscal regulation: fiscal balance based on fixed petroleum tax, improved tax collection, more progressive income tax, expanded VAT base, including the retail distribution phase. Labor regulation to establish salaries in dollars, social security reform, salary reduction through collective bargaining.</p> <p>Decentralization: reform transfers, decentralize tax sources to states, conclude decentralization of authority, allow controlled subnational debt, strengthen state/municipal institutions. Educational reform: decentralization, strengthening of the users, autonomy</p>	<p><b>Diagnosis:</b> based on diversification of the economy, efficient use of petroleum resources, prudent macro management, regional development and decentralization, fight against poverty and improved delivery of social services</p> <p><b>Proposals:</b> Modernization of the State and public finances</p> <p>Increased of productivity and competitiveness of nonpetroleum resources and diversification of the economy. Poverty reduction through human capital development and access to basic social services.</p> <p>Regional development and territorial balance by strengthening civil society, improved provision of services by regional and local governments.</p>	<p>Office of Public Debt; <b>Emergency fiscal program;</b></p> <p>Public sector reform</p> <p>Preinvestment;</p> <p>Criminal judicial system reform</p> <p>Land titling and registry; Microcredit;</p> <p>Forestry program;</p> <p>Control of the level of Lake Valencia;</p> <p>CONICIT II</p> <p>At-risk children;</p> <p>Job training;</p> <p>Unified Social Fund;</p> <p>Peaceful coexistence and citizen security;</p> <p>Harmonious development of the eastern region;</p> <p>Development plan for the Orinoco-Apure corridor and the western corridor.</p>	<p>Total for the period in millions of US\$</p> <p>Agriculture 10.48</p> <p>Sci/technology 100.00</p> <p>Education 1.88</p> <p>Energy 0.11</p> <p>Industry 0.01</p> <p>Social inv. 31.12</p> <p>State moderniz. 608.09</p> <p>Env. Protection 20.00</p> <p>Other 1.99</p> <p>Health 0.05</p> <p>TOTAL 773.73</p>

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COMPARATIVE TABLE OF ISSUES IN ENCERRONAS, COUNTRY PAPERS, AND OPERATIONS PROGRAM

<p><i>Encerrona</i> October 1998</p> <p>for providers, and redefine the State's role. Need to: balance public spending for basic and secondary education, implement national testing, promote decentralization to the school level with a greater decision making authority for principals and community oversight of principals, more evaluation of teacher and professors. Universities spend a great deal and produce little. Results-based funding needed, allocation of resources for graduates, performance incentives for teachers, increased private contributions to university financing by charging tuition and establishing a student loan system.</p>	<p>Country paper October 1999</p>	<p>Project pipeline Country paper 1999-2000</p>	<p>Approved operations by sector, 1998-2000</p>
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Observation: Different but not conflicting views and objectives. Little subject coordination of topics, with the *encerrona* proposing very ambitious reforms which in many cases had no specific counterpart in lending program.

Among the approved operations that were most closely related to issues mentioned in the *encerrona* are the sector program for support for fiscal and public sector reform, the pilot decentralization program, and the program to reform social security and modernize the central government. The three operations represent 78% of total Bank approvals during the period under consideration. However, these operations were approved before the *encerrona*. When the administration changed, the new administration being less pro-reform, the operations practically halted.

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## COMPARATIVE TABLE OF ISSUES IN ENCERRONAS, COUNTRY PAPERS, AND OPERATIONS PROGRAM

## EL SALVADOR

<i>Encerrona</i> June 1999	Country paper August 2000	Project pipeline Country paper 2000-03	Approved operations by sector, 1999-2001
<p><b>Diagnosis:</b> Leader in structural reforms, GDP growth, and reduction of inflation. But the growth is not sustainable and there is increased inequality.</p> <p><b>Problems:</b> Investment over GDP is low, foreign direct investment is low, low public capital, investment rate, and education is very low and growing slowly.</p> <p><b>Proposals:</b> the following reforms are needed:</p> <p>Macro reforms in three areas:</p> <p>Exchange policy: fixed-exchange rate (currency board, monetary association treaty, or unilateral dollarization)</p> <p>Fiscal policy: greater austerity, efficiency in spending, and tax collections needed.</p> <p>Financial policy: improve oversight, increase internationalization of banking, implement systematic liquidity policy, maintain fiscal prudence.</p> <p>Educational reform based on a diagnosis of sector organization and reform of the government's central monopoly. Strengthen users, grant autonomy to schools, redefine the government's role, and solve the</p>	<p><b>Diagnosis:</b> based on the reconstruction and democratization carried out after the 1980 civil war, which had a high social and economic cost, preventing the country from undertaking a sustainable process of poverty reduction, the primary objective of the government and IDB authorities.</p> <p><b>Proposals:</b></p> <p>Reactivation of economic growth and competitiveness</p> <p>Reduction of poverty and strengthening of human capital</p> <p>Modernization of the State and government</p>	<p>Modernization of the banking sector;</p> <p>Rural roads, phase I;</p> <p>Bases for ISS modernization;</p> <p>Performance-based public sector management;</p> <p>Multisector credit;</p> <p>Housing program;</p> <p>Support for social peace program, phase I;</p> <p>Fiscal Management, phase II;</p> <p>Management of the Upper Lempa River;</p> <p>Agribusiness restructuring;</p> <p>Management of the Lower Lempa River;</p> <p>Technological knowledge development;</p> <p>State modernization, phase II;</p> <p>Second generation of pension reform;</p> <p>Local development and road infrastructure;</p> <p>Health system reform;</p> <p>Paz River Basin protection;</p> <p>Rural roads, phase II;</p> <p>Support for education, third cycle;</p> <p>Support for social peace program, phase II;</p>	<p>Total for the period in millions of US\$</p> <p>Agriculture 1.14</p> <p>Science and tech. 0.07</p> <p>Urban dev. 0.67</p> <p>Education 0.50</p> <p>Industry 1.33</p> <p>Social inv. 0.75</p> <p>Microenterprise 3.80</p> <p>State moderniz. 21.93</p> <p>Other 0.15</p> <p>Env. Protection 31.42</p> <p>Health 0.30</p> <p>Sanitation 0.02</p> <p>Tourism 0.15</p> <p>TOTAL 62.23</p>

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## COMPARATIVE TABLE OF ISSUES IN ENCERRONAS, COUNTRY PAPERS, AND OPERATIONS PROGRAM

<i>Encerrona</i> June 1999	Country paper August 2000	Project pipeline Country paper 2000-03	Approved operations by sector, 1999-2001
<p>problem of scarce resources. Labor reform to help create formal employment, to avoid discrimination, once the minimum salary is very high, and high termination costs. To increase the provision of infrastructure, continue the privatization program (lack of highways, water supply, and ports) and decentralize by redefining levels of government, choosing the urban services to be transferred, giving subnational governments more power to tax, establishing capitation-based transfers for education and health, and isolating the transfers from fluctuations in national taxes.</p>		<p>Management and conservation of coastal areas; Technological education reform</p>	

Conclusion: Different but not conflicting views and objectives. Little subject matter coordination, with the *encerrona* proposing very ambitious reforms which in many cases had no specific counterpart in lending program.

One operation, the Program to support the financial sector in El Salvador, is part of the issues addressed in the *encerrona* with respect to improving banking oversight and has a focus similar to that considered by the *encerrona*. This technical-cooperation loan represents 6% of the Bank's total participation in the operations approved during the period.

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## COMPARATIVE TABLE OF ISSUES IN ENCERRONAS, COUNTRY PAPERS, AND OPERATIONS PROGRAM

## PANAMA

<i>Encerrona</i> August 1999	Country paper December 2000	Project pipeline Country paper 1999-01	Approved operations by sector, 1999-2001
<p><b>Diagnosis:</b> Panama has been protected by dollarization, its financial depth, and its fiscal prudence. Thus, it has respectable growth, enviable price stability, a high education level, and good health conditions.</p> <p><b>Problems:</b> Labor situation, poverty, lack of education, very inflexible labor market with high costs, and provision of infrastructure has not reached everyone.</p> <p><b>Proposals:</b> Maintain fiscal soundness by improving tax collection and decreasing exemptions. Consolidate comparative advantages by means of low, flat tariffs, freedom to import, and direct assistance for poor producers. Include all in development by making the labor market more flexible; educational reform, by means of decentralization and strengthening of the users, autonomy for schools, and redefinition of the government's role; decentralization (establish the level of decentralization, choose the urban services to be transferred, open up the possibility of provision, establish the tax authority of subnational governments, establish system of transfers, establish a system and an agency responsible for monitoring and oversight, establish training mechanisms)</p>	<p><b>Diagnosis:</b> Economy in transition characterized by policies that seek to remove obstacles to achieve more diversified, sustained growth. Overall, service activities constituted 74% of the GDP in 1996. The lack of growth of the enclaves and other sources of generation of value added and foreign exchange are the causes of the low growth. A successful structural reform program was initiated in 1994. Public spending was stabilized, collections increased, foreign debt with commercial banks is being managed, trade liberalization was stepped up, certain price distortions and unnecessary regulations were eliminated, and social spending is being better targeted.</p> <p><b>Proposals:</b> Expand the benefits of social policy (growth with equity) Economic competitiveness Environmental sustainability Strengthen governance.</p>	<p>Support for implementation of the Center for Science, Technology, and Innovation; Health sector program; National land management program; Sanitation for Panama City; Sustainable development of the mining sector; School rehabilitation program; Labor market modernization; Sustainable development of the Panama Canal Basin; Urban transit; Agricultural sector modernization; Foreign trade program; Municipal support: upgrading of impoverished districts. Fighting urban poverty; Fiscal management; Modernization of justice; Sustainable development of the coastal areas; Science and technology II.</p>	<p>Total for the period in millions of US\$</p> <p>Agriculture 1.59 Sci/technology 3.49 Education 0.15 Energy 60.14 Exports 3.00 Forestation 0.22 Urban dev. 0.43 Industry 0.60 Social inv. 49.12 Microenterprise 0.89 Mining 0.51 State moderniz. 1.23 Other 3.00 Env. protec. 18.6 Transportation <u>0.15</u> TOTAL 142.68</p>

**ANNEX V**

**COMPARATIVE TABLE OF ISSUES IN ENCERRONAS, COUNTRY PAPERS, AND OPERATIONS PROGRAM**

Observation: Consistent views and objectives on some issues, but there is a time lag. The *encerrona* highlighted the success of structural reforms (dollarization) and emphasized maintaining fiscal strength, an objective not explicitly mentioned in the country paper. But improving the distribution of income, decreasing poverty, and achieving sustainable growth are objectives common to both.

Regarding the impact of the *encerrona* on the Bank's operations approved during the period, there is not much consistency in the issues.

ANNEX V

COMPARATIVE TABLE OF ISSUES IN ENCERRONAS, COUNTRY PAPERS, AND OPERATIONS PROGRAM

DOMINICAN REPUBLIC

<p><i>Encerrona</i> August 2000</p>	<p>Policy Dialogue Paper August 2000</p>	<p>Project pipeline Country paper</p>	<p>Approved operations by sector, 2000-02</p>														
<p><b>Diagnosis:</b> Second half of the 1990s saw great growth in a context of moderate inflation, reduced rates of open unemployment, and levels of inequality of income less critical than the Latin American average. This performance was possible thanks to the expansion of labor-intensive activities (duty-free zones) and to a growing in flow of foreign exchange.</p> <p><b>Problems:</b> Fiscal situation has deteriorated, international reserves are falling, high interest rates, worst budget institutions in Latin America, Central Bank undercapitalized, high poverty rates, educational progress seriously lagging, health deficiencies, banking regulation/oversight problems, floating exchange rate, low tax burden and collection, insufficient education spending and low quality, low health spending, future pension system deficit, high tariffs, lack of infrastructure</p> <p><b>Proposals:</b> Financial policy—capitalize the Central Bank, prohibit monetary financing of the fiscal deficit, strengthen regulation, encourage internationalization. Exchange policy—plan the transition to a more fixed exchange rate. Tax policy—modernize the Treasury, increase tax burden, improve tax efficiency. Decentralization of education with strengthening of users, autonomy for providers, and targeted government role. Health—decentralize and target public spending toward the poor, concentrate public spending on highly cost-effective interventions, establish an incentive system for productivity and quality in public services, evaluation of health</p>	<p><b>Diagnosis:</b> Noteworthy growth in the 1990s, but with a lack of reforms and public policies necessary to decrease inequalities, poverty did not decrease. Effort in terms of social policy was insufficient.</p> <p><b>Proposals:</b> Resolve persistent macroeconomic and financial weaknesses, which make stability vulnerable; eliminate fiscal weakness to confront social debt, promote the productive sectors and help overcome poverty structurally; eliminate structural and policy bottlenecks affecting productive sector performance; strengthen capacity to confront natural threats and threats of deterioration; enhance institutional ability to make the system more effective in the face of social demands and improve governance.</p>		<p>Total for the period in millions of US\$</p> <table border="0"> <tr> <td><b>Education</b></td> <td><b>52.2</b></td> </tr> <tr> <td>Energy</td> <td>0.45</td> </tr> <tr> <td>Social inv.</td> <td>0.45</td> </tr> <tr> <td>Microenterprise</td> <td>0.6</td> </tr> <tr> <td>State moderniz.</td> <td>24.4</td> </tr> <tr> <td>Other</td> <td><u>0.15</u></td> </tr> <tr> <td><b>TOTAL</b></td> <td><b>78.25</b></td> </tr> </table>	<b>Education</b>	<b>52.2</b>	Energy	0.45	Social inv.	0.45	Microenterprise	0.6	State moderniz.	24.4	Other	<u>0.15</u>	<b>TOTAL</b>	<b>78.25</b>
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## ANNEX V

## COMPARATIVE TABLE OF ISSUES IN ENCERRONAS, COUNTRY PAPERS, AND OPERATIONS PROGRAM

<i>Encerrona</i> August 2000	Policy Dialogue Paper August 2000	Project pipeline Country paper	Approved operations by sector, 2000-02
<p>policies, promote basic consensus-building on the direction and scope of reform. Pension system reform. Trade policy – reduce tariffs. Infrastructure – open the State-owned companies to private-sector participation and establish a regulatory framework, increase investment by the central government and decentralize of urban services to the subnational governments as follows: establish the level of decentralization, establish nonconflicting responsibilities, provide technical and administrative support, grant comprehensive autonomy to the agencies responsible, strengthen the <i>municipios</i> in terms of taxes, and establish transfers for services rendered.</p>			

Objectives of the *encerrona* and the policy dialogue paper (PDP) are similar, but not identical. More clarity in the definition and treatment of policies in the *encerrona* than in the PDP, presumably because of the characteristics of the latter.

The principal project associated with the *encerrona* is modernization of secondary education, which represents 67% of the Bank's funds allocated to the Dominican Republic during the period under consideration. The focus of this program is decentralization of management supported by investments in infrastructure, curricular development, and teacher training.

## ANNEX V

## COMPARATIVE TABLE OF ISSUES IN ENCERRONAS, COUNTRY PAPERS, AND OPERATIONS PROGRAM

## GUATEMALA

	Approved operations by sector, 2000-01
<p data-bbox="418 499 451 1921"><b>Encerrona</b> <b>May 2000</b></p> <p data-bbox="451 499 552 1921"><b>Diagnosis:</b> Respectable growth, little volatility, low inflation rates, and high concentration of income <b>Problems:</b> Per capita growth unsatisfactory because the bases of growth are very weak: low education, low savings and investment, fiscal and external deficits growing, social spending as a percentage of the GDP is low. The murder rate is high, there is no confidence in State capacity, little confidence in the judiciary <b>Proposals:</b> To accelerate growth, the following measures need to be taken:</p> <ol data-bbox="552 499 1221 1921" style="list-style-type: none"> <li data-bbox="552 499 584 1921">1. Social Development</li> </ol> <p data-bbox="584 499 649 1921">Correct the lag in education. Decentralization, appropriate incentives for teachers and schools, community oversight.</p> <p data-bbox="649 499 682 1921">Continue in line with PRONADE (National Program for School-based Management)</p> <p data-bbox="682 499 714 1921">Job opportunities through trade, eliminating the obstacles to foreign trade.</p> <p data-bbox="714 499 812 1921">Infrastructure and decentralization. Open the State-owned companies to private-sector participation, increase investment by the central government, and give the subnational governments the ability to respond to the demand for urban services.</p> <p data-bbox="812 499 844 1921">Improve the conditions for investment</p> <p data-bbox="844 499 876 1921">Financial policy</p> <p data-bbox="876 499 909 1921">Macroeconomic stabilization</p> <p data-bbox="909 499 941 1921">Tax policy. Increase rates, improve effectiveness, eliminate exemptions, improve oversight.</p> <p data-bbox="941 499 1039 1921">Financial policy. Capitalization plan with sound funds, increase coverage of oversight, improve management of liquidity by the Central Bank, among other areas.</p> <p data-bbox="1039 499 1104 1921">Exchange rate policy. More fixed system for improving financial development (exchange board, regional currency, monetary association treaty, and unilateral dollarization).</p> <p data-bbox="1104 499 1136 1921">Security policy</p> <ol data-bbox="1136 499 1169 1921" style="list-style-type: none"> <li data-bbox="1136 499 1169 1921">1. Governance</li> </ol> <p data-bbox="1169 499 1201 1921">Anti-crime policies</p> <p data-bbox="1201 499 1221 1921">Political institutions for governance</p>	<p data-bbox="418 184 451 499">Total for the period in millions of US\$</p> <p data-bbox="451 184 483 499">Urban dev. 0.29</p> <p data-bbox="483 184 516 499">Education 0.15</p> <p data-bbox="516 184 548 499">Energy 0.83</p> <p data-bbox="548 184 581 499">Social inv. 0.62</p> <p data-bbox="581 184 613 499">Microenterprise 0.77</p> <p data-bbox="613 184 646 499">State moderniz. 0.51</p> <p data-bbox="646 184 678 499">Other 0.15</p> <p data-bbox="678 184 711 499">Env. protection 0.10</p> <p data-bbox="711 184 743 499">Sanitation <u>0.93</u></p> <p data-bbox="743 184 776 499">TOTAL 4.35</p>

The country paper subsequent to the *encerrona* has not been approved yet.

The operations approved during the short period under reviews were basically technical-cooperation projects with little connection to the issues addressed at the *encerrona*.

## ANNEX V

## COMPARATIVE TABLE OF ISSUES IN ENCERRONAS, COUNTRY PAPERS, AND OPERATIONS PROGRAM

## ECUADOR

<i>Encerrona</i> general content May 2000	Approved operations by sector, 2000-01																				
<p>First presents the successes of dollarization and then the need for reform:</p> <p>Results of dollarization: lower interest rates, return of funds to the financial system, and so forth. But when there are financial weaknesses (undercapitalized, poorly overseen, illiquid banks) the following are necessary:</p> <ul style="list-style-type: none"> <li>Measures to strengthen banking</li> <li>Debt restructuring facilities</li> <li>Better oversight and prudential regulation</li> <li>Sources of liquidity in dollars (recycling of liquidity, excess reserves and external sources)</li> <li>There are also fiscal weaknesses (high fiscal deficit and public debt, no seigniorage)</li> </ul> <p>The following reforms must be implemented:</p> <ul style="list-style-type: none"> <li>Collect taxes and reduce exemptions</li> <li>Generate more petroleum revenue (build the pipeline and open up private investment options)</li> <li>Reduce subsidies and control expenditures</li> <li>Sell companies that the private sector would operate better.</li> </ul> <p>It concludes by stating that Ecuador is not realizing its potential for three reasons:</p> <ul style="list-style-type: none"> <li>Great economic instability</li> <li>Poor institutions</li> <li>Political problems</li> <li>Political participation is modest and there is much fragmentation.</li> </ul> <p>It concludes that:</p> <ul style="list-style-type: none"> <li>Governments do not improve institutions, societies do</li> <li>-Only authoritative majority movements can produce sustainable changes.</li> </ul>	<p>Total for the period in millions of US\$</p> <table border="0"> <tr><td>Education</td><td>0.10</td></tr> <tr><td>Energy</td><td>0.76</td></tr> <tr><td>Industry</td><td>0.03</td></tr> <tr><td>Social inv.</td><td>4.65</td></tr> <tr><td>Microenterprise</td><td>0.40</td></tr> <tr><td>State moderniz.</td><td>163.54</td></tr> <tr><td>Env. Protection</td><td>10.55</td></tr> <tr><td>Health</td><td>0.90</td></tr> <tr><td>Transportation</td><td>9.0</td></tr> <tr><td><b>TOTAL</b></td><td><b>189.93</b></td></tr> </table> <p>The sector investment program, which represents 79% of the total financed by the Bank, is consistent with the <i>encerrona</i> with respect to privatization of the infrastructure (electric power and telecommunications) and reform of the financial sector to reprivatize it.</p>	Education	0.10	Energy	0.76	Industry	0.03	Social inv.	4.65	Microenterprise	0.40	State moderniz.	163.54	Env. Protection	10.55	Health	0.90	Transportation	9.0	<b>TOTAL</b>	<b>189.93</b>
Education	0.10																				
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Health	0.90																				
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<b>TOTAL</b>	<b>189.93</b>																				

## ANNEX VI

### Observable Impact of *encerronas* list prepared by RES

Below RES lists the “observable impact” of *encerronas*.

#### **Dominican Republic, May 1996**

- After that first *encerrona*, **two** more were held with the same administration, and a fourth with the new administration.
- The 1999 *encerrona* was presented at a seminar at the Bank, which **30** people attended.

#### **Panama, July 1996**

- The government took steps to liberalize trade and to reform various sectors the year following the *encerrona*.
- The government hired Jaime Serra Puche, a consultant who was on the team that presented the *encerrona*, to carry out studies on the impact and feasibility of trade liberalization.
- The *encerrona* was recorded and broadcast on television several times.
- Some six months after the first meeting, the chambers of commerce organized a seminar for the private sector, at which we were invited to again present all the issues that had been addressed at the *encerrona*.

#### **Guatemala, November 1996**

- **On** Guatemala’s structural reforms at a seminar organized by the Central Bank. 1997 Eduardo Lora was invited to present his assessment of the status. The article was then published in a book of reports on the meeting.

#### **Costa Rica, March 1998**

- Ricardo Hausmann was invited a short time after the *encerrona* to present a summary of the policy implications at a very well-attended seminar organized by members of Congress. The article Hausmann presented was then published in a book.
- The draft of the new government’s development plan, which was strongly influenced by the *encerrona*, was presented to RES and Region 2 staff for feedback.
- In 2000 the government economic team asked RES for a new *encerrona* focusing on macroeconomic and exchange issues.

#### **Honduras, July 1998**

- No observable impact we can recall.

#### **Paraguay, September 1998**

- No observable impact we can recall.

#### **Venezuela, October 1998**

- No observable impact we can recall.

### **El Salvador, June 1999**

- Ricardo Hausmann was later invited to discuss fiscal and exchange policy issues with the government.
- Several RES researchers were invited to a meeting with members of the economic cabinet to discuss the pros and cons of alternative exchange systems (El Salvador eventually adopted dollarization).

### **Panama, August 1999**

- No observable impact we can recall.

### **Dominican Republic, September 1999**

- No observable impact we can recall.

### **Costa Rica, March 2000**

- No observable impact we can recall.

### **Guatemala, May 2000**

- a No observable impact we can recall.

### **Ecuador, May 2000**

- a The material presented at the *encerrona* was later used on several occasions by the Bank's Representative in other fora and seminars.

### **Bolivia, August 2000**

- The *encerrona* was held as a result of a presentation by Eduardo Lora at a Santa Cruz Chamber of Commerce seminar. Several ministers attended and suggested holding a special cabinet meeting.
- At the same time as the *encerrona*, Eduardo Lora was invited to give the same presentation at a university seminar devoted exclusively to the subject. Some 200 people attended.
- The PowerPoint presentation was sent to some 30 people who requested it after the seminars.
- Eduardo Lora published an article on the central topic of the *encerrona*: Why isn't Bolivia Growing More?

### **Mexico, October 2000**

- The Fox administration, once installed, suggested that the Bank set up a social indicators information system inspired by the type of analysis presented at the social *encerrona* conducted with the transition team. The administration also asked that Miguel Székely, who coordinated the *encerrona*, manage that new system.