

BTI 2008 | El Salvador Country Report

Status Index	1-10	6.99	# 34 of 125	
Democracy	1-10	7.20	# 37 of 125	➔
Market Economy	1-10	6.79	# 35 of 125	➔
Management Index	1-10	6.24	# 25 of 125	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	6.9	HDI	0.73	GDP p.c.	\$	4,675
Pop. growth ¹	% p.a.	1.7	HDI rank of 177	101	Gini Index		52.4
Life expectancy	years	71	UN Education Index	0.76	Poverty ³	%	40.6
Urban population	%	59.8	Gender equality ²	0.53	Aid per capita	\$	29.0

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Democracy in El Salvador is rather stable, as no relevant anti-democratic actors threaten the system as such. However, several instances in recent years raise concerns about setbacks in the country's democratic performance. For example, President Antonio Saca violated the constitutional requirement of presidential neutrality during the campaign for the 2006 municipal, legislative and PARLACEN (Central American Parliament) elections, but enjoyed complete impunity, which indicates an insufficiently enforced subjection of the presidency to the law. The relatively undebated reform of the electoral code prior to the elections, as well as accusations that members of the Tribunal Supremo Electoral (Supreme Electoral Tribunal) were politically biased contributed to the perception that the 2006 elections were less free and fair than in previous years. The score of consent to democracy among the Salvadoran population continued to fluctuate, dropping under the 50% threshold in 2005 (43%), and with only little more than half of the people interviewed by Latinobarómetro in 2006 (51%) preferring democracy to any other form of government. At the same time, persistently high crime rates and the increasing strength of maras gangs' challenge the state's monopoly on the use of force. The political leadership has been addressing these problems primarily with the deployment of state troops. Corruption among state authorities, particularly in the judiciary, as well as human rights violations, poverty and gross socioeconomic inequalities continued to plague El Salvador. El Salvador's economic performance, on the other hand, received international praise on multiple occasions. President Saca's government continued its efforts for bilateral and multilateral free trade agreements, following a consistent pro-liberalization and pro-privatization course in its international and domestic policy agendas. El Salvador was the first country where the Dominican Republic – Central American Free Trade Agreement (DR-CAFTA) went into effect on 1 March 2006, promising even further liberalization of the Salvadoran market, in particular in the agricultural sector. The Ley

de Competencia (Competition Law), which went into effect on 1 January 2006, represented a significant step in the attempt to abolish monopolistic practices and achieve a more efficient and competitive economy. Overall, several democratic and some economic improvements need to be made before El Salvador becomes a substantial socially responsible free market democracy.

History and Characteristics of Transformation

The civil war, which lasted from 1980 to 1991, officially ended with a peace agreement in 1992, which marked a decisive step in El Salvador's transformation process toward democracy. Approximately 75,000 individuals are estimated to have fallen victim to the conflict, and several thousand people who "disappeared" are still missing today. El Salvador's rather lengthy democratization process had already started by the end of the 1970s and beginning of the 1980s. A group of young, radical reformist officers overthrew the government in 1979, and civilian presidents were elected to rule the country from 1984 on. Competitiveness in the presidential elections as well as the extent of presidential powers increased from then onwards. While the presidential powers of José Napoleón Duarte (1984 – 1989) were still strongly restricted by the military, his successors' powers increased significantly. Duarte's successors in office were Alfredo Cristiani (1989 – 1994), Armando Calderón Sol (1994 – 1999), Francisco Flores (1999 – 2004) and Elías Antonio Saca (since 2004). Except for Duarte himself, who had been a member of the Christian Democratic Party (PDC), all presidents have been candidates of the right-wing Nationalist Republican Alliance (ARENA). ARENA's main opposition party has been the Farabundo Martí National Liberation Front (FMLN), a left-wing guerrilla movement that was transformed into a major political party. The deep polarization and distrust between the two major parties, ARENA and FMLN, reflects a deep division within society along the blatant socioeconomic cleavages between rich and poor, and has quite substantially hindered the development of a more democratic political culture. Fourteen years after the official end of the Salvadoran civil war, this polarization remains strong, as the outcome of the legislative elections in March 2006 shows: in a very close contest, FMLN and ARENA won the largest number of seats, with 32 and 34 out of 84 respectively while the position of the center parties in the Legislative Assembly was weakened. The ARENA-led governments have consistently pursued privatization and liberalization in economic transformation since 1989. These policies were applied to the former public service sector from 1996 onwards. Nowadays, the Salvadoran economy is one of the most open in Latin America and is among the best-performing in Central America. High rates of poverty and gross socioeconomic inequalities nevertheless remain, due to the lack of coherent anti-poverty policies. A small, oligarchic business elite thus benefits the most from El Salvador's transformation toward a free market economy.

Transformation Status

I. Democracy

1 | Stateness

The state's monopoly on the use of force covers the entire territory of El Salvador, and is not challenged by any major guerrilla or paramilitary group. However, the high crime rate and the regular growth in the number of homicides since 2003 pose a persistent challenge to the state's authority. According to the Instituto de Medicina Legal in El Salvador (National Forensics Institute), the homicide rate amounted to 43.4 per 100,000 inhabitants in Spring 2006, with around 9 people murdered per day. This makes El Salvador one of the most dangerous countries in Latin America. Members of the Central American Coalition for the Prevention of Youth Violence assume that 40% of all homicides involve a gang member as the victim or perpetrator. Despite the implementation of government policies such as Mano Dura (Strong Hand, implemented in 2003) and Super Mano Dura (Super Strong Hand, implemented in 2004) the strength of maras has grown in recent years. State authorities have failed to involve the entire Salvadoran population in their search for solutions to this problem. The number of gang members in El Salvador is approximately 10,500 according to the Salvadoran National Civilian Police, and roughly 39,000 according to the government's National Council on Public Security. The two largest gangs in El Salvador are MS-13 and 18th Street. The deportation of Salvadorans with criminal records from the United States contributes to the strength of gang violence. Overall, the number of deportations from the United States rose from 7,239 in 2005 to 13,530 in 2006, marking an increase of 86.9%. The highly controversial Ley Anti-Maras (Anti-Maras Act) to deal with the crimes of youth gangs has not been renewed due to strong criticisms from the judiciary and civil society. On the other hand, the project "Municipalities Free of Weapons Carrying" in San Martín and Ilopango, launched by the National Council on Public Security with support of the UNDP program "Towards a Society without Violence" in 2005, helped to reduce armed violence locally: In the first months of 2006, homicide rates were almost halved in the municipality of San Martín.

Monopoly on the use of force

According to the constitution, all Salvadorans over the age of 18 are considered citizens of the state. Nobody is formally denied civil rights based on his or her belonging to certain religious, political or ethnic groups, nor on gender or sexual orientation. Despite these constitutional guarantees, there have been numerous reports on civic rights violations against women, homosexuals, indigenous and disabled persons, which were left with impunity by the state authorities. Moreover, the Salvadoran population acknowledges the constitution less than before: according to Latinobarómetro, 60% of the interviewees support the constitution in 2006 compared to 66% in 2004. However, the legitimacy of the nation-state is not questioned in principle.

State identity

The constitution explicitly recognizes the juridical status of the Catholic Church, and establishes the right of all other churches to be officially acknowledged. Church and state are separate, and religious dogmas have no noteworthy influence on politics or the law. The lack of religious issues in the electoral campaigns of the country's two major parties – the right-wing ARENA and the left-wing FMLN – and the comparatively minor electoral successes of the Christian Democrats in the municipal, legislative and PARLACEN elections in 2006 highlight the marginal influence of religious dogma on politics in El Salvador. Nevertheless, both ARENA and FMLN exploit the influence of the Catholic Church for their political purposes. The community of Protestant believers continues to grow, but does not have any noteworthy influence on politics or the law.

No interference of religious dogmas

The state infrastructure and its powers extend beyond maintaining law and order, but there are severe deficits regarding administrative structures, particularly in rural areas. The overcrowding of prison facilities and poor supply of drinking water remain among the most severe problems and have not been addressed adequately. In addition, the occupancy levels of prison facilities have been increasing steadily since 2000, reaching 165.2% at the end of 2005 according to the International Center for Prison Studies. Due to the shortage in prison cells, pretrial detainees and juvenile offenders were often sent to regular penitentiaries and not to demand prisons or youth detention centers. Human rights observers report prisoner hunger strikes in 2005 and a riot in the prison of Apanteos at the end of January 2007, during which 21 people died due to harsh prison conditions. Also, the Salvadoran population has increasingly voiced its demands for an improved provision of drinking water during the last two years. On the other hand, progress was made in addressing administrative shortcomings in election management. In the 2006 elections, pilot projects of the Voto Residencial (residential vote) were conducted in seven municipalities. Despite various shortcomings in these pilot projects, the nationwide implementation of the Voto Residencial, which reduces the sometimes extensive travel distances to polling stations in future elections, will enable more participation, in particular of the rural population.

Basic administration

2 | Political Participation

The constitution of the Republic of El Salvador and its electoral code establish that elections are to be free, direct, equal and anonymous. According to international observers, the legislative, municipal and PARLACEN elections on 12 March 2006 were generally free and fair, but several events give rise to concerns that previously established electoral principles were compromised. The voter turnout, out of the 3.8 million eligible voters, was 53.09%. Although this turnout is lower than in the 2004 presidential elections (70.09%), it represents an increase compared to the legislative and municipal elections in 2003 (40.32%). Election day itself proceeded calmly, with only 14 detentions during the day. Administrative shortcomings, such as lack of pens and paper and late openings of polling stations, however proved the most significant obstacle. International observers stated that the electoral register needed to be adjusted in future elections, and suspected voter manipulation was taking place through a number of factors: party transportation to the polling station, the display of party symbols by the staff in the polling stations and the widespread presence of police forces that led to voter intimidation. During the electoral campaign, government members defamed the left-wing main opposition party FMLN of supporting the maras in El Salvador. Nevertheless, both ARENA and FMLN have been using the influence of the Catholic Church for their political purposes. The fact that Salvadorans living abroad at times of elections are not allowed to cast their vote seriously limits the democratic character of the Salvadoran elections, as approximately 2.5 million Salvadorans are living and working in other countries, mainly in the United States. The factors that raised concerns as to the freedom and fairness of the 2006 elections included the following: President Saca clearly violated the constitutional definition of his office by entering the electoral campaign and advertising that every vote for his right-wing party ARENA would be a vote for him. He thereby breached the constitutional requirement of presidential neutrality for the sake of his position as party leader, but was left with impunity. The electoral code was reformed prior to the elections and without major debate, in order to favor some parties over others, according to the Centro de Intercambio y Solidaridad. Furthermore, the members of the Tribunal Supremo Electoral (Supreme Electoral Tribunal) were accused of being politically biased. FMLN as well as ARENA declared their victory in the head-to-head elections in the capital San Salvador before the publication of the official end results. This led to suspicions of electoral fraud, as the Tribunal Supremo Electoral alone is legitimized to declare the official election results.

Free and fair elections

Since the successful reform of the military and the police forces in the 1990s, there have been no significant veto powers or political enclaves constraining elected rulers in their effective power to govern. Civil society organizations,

Effective power to govern

however, continue to criticize the influence of business oligarchies and of U.S.-based multinational enterprises on the political decision-making process of El Salvador.

The constitution establishes the right for independent political and civic groups to associate and assemble freely in accordance with the law. This right is generally respected and numerous independent political and civic groups operate in El Salvador without significant disturbances by the state authorities. With the failure of the attempt to renew the Ley Anti-Maras, young people are no longer as severely restricted in their right to assemble freely. However, there are partial constraints on the freedom of association. Organizations with particular human rights or political agendas have experienced delays in the approval of their legal status. Likewise, workers faced problems in forming unions due to excessive formalities that were used as justification to deny applications for legal standing. Employers continued to discriminate against trade unionists, and state authorities did not support them.

Association /
assembly rights

The freedoms of opinion and the press are guaranteed under the Salvadoran constitution and generally respected in practice. The realm of the media is pluralistic and dominated by private operators, with five privately owned daily newspapers, one state-owned and seven commercial television companies, two religious television stations, one state-owned and approximately 150 private radio stations. International media can operate freely in El Salvador and access to the Internet is not restricted. There have been no instances of censorship by the state authorities, and the media freely and routinely criticize the government. According to the Inter American Press Association, President Elías Antonio Saca – himself a former broadcast journalist – and most of his cabinet are open to the media and willing to discuss controversial issues. President Saca publicly criticized the allegedly political firing of TV station Canal 12's news director and presenter Mauricio Funes in February 2005, though he abstained from intervening into the company's decision. However, delays in the release of information by the state authorities, problems in accessing public records and reports on practices of self-censorship among journalists give reason for concern. The Ley de Competencia (Competition Law), which came into effect in January 2006, contains a strict confidentiality clause for persons working for the newly established superintendence, which raised further concerns among the Asociación de Periodistas de El Salvador (Association of Journalists of El Salvador) that information held by state authorities will be less accessible in future. When demonstrators attacked journalists during protests against public transport and electricity price increases in July 2006, Reporters Without Borders regarded the event as evidence of the hostility felt by part of the population towards the media.

Freedom of
expression

3 | Rule of Law

The separation of powers in El Salvador is formally recognized, but some severe shortcomings in the system of checks and balances have become obvious in recent years. President Saca violated the constitutional requirement of presidential neutrality during the 2006 electoral campaign but was left with impunity, which indicates an insufficiently enforced subjection of the presidency to the law. Structural deficits of the judiciary, in particular inefficiency and corruption, make it a comparably weak institution, and no comprehensive efforts have yet been made to address this. Moreover, human rights groups have been alarmed by the growing involvement of the military in combating gang violence. For instance, following the murder of two police officers outside a nightclub in November 2005, the government deployed additional troops in patrols and razzias.

Separation of powers

The judiciary's independence is constitutionally recognized, but persistent dysfunctions significantly undermine its impartiality in practice. Numerous reports revealed inefficiency and corruption within the judiciary, the latter facilitating cases of impunity from civil and criminal laws. According to the Human Rights Institute of the University of Central America, the Supreme Court of El Salvador did not make sufficient efforts to remove unqualified and corrupt judges.

Independent judiciary

El Salvador is seen as one of the least corrupt Latin American countries. However, this standing seems to have worsened, given the reports on substantial corruption within the state authorities, in particular the judiciary. Corrupt pro-government judges exercise considerable political influence. NGOs such as the Fundación Salvadoreña para el Desarrollo Económico y Social (Salvadoran Foundation for Economic and Social Development) criticized the government's failure to remove corrupt officeholders. In a poll conducted by the Salvadoran newspaper La Prensa Gráfica in the context of the 2006 elections, 71.6% of the interviewees were in favor of a law making it compulsory for political parties to declare the financial sources of their electoral campaigns. Electoral observers such as the Centro de Intercambio y Solidaridad criticized the current lack of such legal provisioning as a threat to the transparency of the electoral process.

Prosecution of office abuse

Civil rights of certain groups in society are violated over protracted periods of time and only insufficiently brought to justice by the state authorities. Human rights groups are particularly alarmed by the worsening conditions in prison facilities, attacks and death threats against activists and civil society organizations with particular human rights or political agendas, numerous reports of police violence left with impunity and increasing instances of violence against women. Discrimination against women, homosexuals, indigenous people and persons with disabilities has been widespread. Other problems insufficiently addressed by the

Civil rights

state authorities include poor working conditions, working rights violations, child labor and people trafficking. Due to the inefficiency and corruption of the judiciary, the institution deals with civil rights violations inadequately or not at all. Consequently, many victims believe their cases unlikely to be prosecuted and do not sue their perpetrators. In particular, domestic violence continued to be underreported during the period under review, according to the Instituto Salvadoreño para el Desarrollo de la Mujer (Salvadoran Institute for the Development of Women). No progress has been made by the Salvadoran state regarding the prosecution of human rights violations during the civil war, which leads to high levels of distrust within the population. In the context of the 25th anniversary of the murder of Archbishop Oscar Arnulfo Romero on 24 March 2005, human rights groups demanded once again the abolishment of the 1993 General Amnesty Law. While the Human Rights Ombudsman of El Salvador, Beatrice de Carrillo, as well as the Inter-American Court of Justice regard this law as unconstitutional, the government continues its objection against investigations of past injustices. Consequently, foreign courts continue to prosecute the perpetrators of human rights violations during the Salvadoran civil war. For instance, the former Vice-Minister of Defense Nicolas Carranza was sentenced for torture and mass murder by a court in Memphis, USA, in November 2005. In March 2005, the Inter-American Court of Human Rights ruled that the state of El Salvador, by failing to carry out a timely and effective investigation into the “disappearance” of two girls during a military operation in 1982, had violated the girls’ human rights and those of their family. Despite this ruling which compels the Salvadoran state authorities to, inter alia, set up a National Search Commission to trace “disappeared” children, the Salvadoran state has hitherto failed to implement fully the Court’s recommendations. In March 2006, the Inter-American Court of Human Rights accepted a request by the Catholic human rights organization Tutela Legal to investigate the massacre of El Mozote from 1981.

4 | Stability of Democratic Institutions

Democratic institutions in El Salvador fulfill their functions in principle, but there are several deficits in their performance due to inefficiency, substantial corruption and the lack of administrative structures or resources in some rural areas. Corruption particularly within the judiciary leads to insufficient prosecution of civil rights violations and thus considerably constrains the state authorities’ effective and democratic performance. Moreover, the authority of the president’s office and of the Tribunal Supremo Electoral were severely undermined during the 2006 elections: President Saca’s entrance into the electoral campaign represented a clear violation of the constitutionally requested neutrality of the presidency; and the declaration of electoral success by the FMLN and ARENA in

Performance of
democratic
institutions

the capital San Salvador before the publication of the official end results seriously harmed the authority of the Tribunal Supremo Electoral.

In the context of the 2006 electoral campaign, government members accused the left-wing opposition party FMLN as well as several judges of eroding democracy in El Salvador through their support of street gangs. Despite such accusations in the context of slanderous electoral slogans, there are no relevant political or social players that fundamentally oppose democracy in El Salvador. During the period under review, there have been no attempts by groups with potential veto powers such as the military or the police force to replace the democratic system.

Commitment to
democratic
institutions

5 | Political and Social Integration

The 2006 elections highlighted yet again the existence of a strongly polarized two-party system in El Salvador: out of 84 seats in the Asamblea Legislativa (Legislative Assembly), the right-wing ARENA won 34, thus increasing its number of seats from 27 in the 2003 – 2006 legislative term. The left-wing FMLN won 32 seats in 2006 compared to 31 in 2003, while the position of the three center parties Christian Democratic Party (PDC), Democratic Convergence (CD) and National Conciliation Party (PCN) in the Legislative Assembly was weakened. The 2006 election results for these parties were: 10 seats for the PCN, 6 seats for the PDC and 2 seats for the CD (compared to the 2003 election results: PCN: 16 seats, PDC: 5 seats, CD: 5 seats). The weakened position of the center parties and the fact that the two main political parties, ARENA and FMLN, obtained the largest number of seats in a very close contest but giving neither an absolute majority, show that politics in El Salvador remain polarized 14 years after the end of the Civil War in 1992. When several members of the FMLN defected in 2005 to found a new party, the Frente Democrático Revolucionario (FDR), taking with them 4 FMLN seats in the Legislative Assembly, some international observers predicted electoral losses for the FMLN in the 2006 elections. The nevertheless comparatively good electoral performance of the FMLN can be attributed to the so-called Schafik effect: according to international observers, the death of the former guerrilla commander and main leader of the FMLN Schafik Handal in January 2006 not only prompted the presumably largest mass gathering in El Salvador in 25 years at the occasion of his funeral, but also fueled bonds of solidarity to his left-wing party. The FMLN has a regular voter basis of 30%. The polarization of El Salvador's party system is paralleled in its civil society, confirming the strong social roots of the Salvadoran political parties. The de facto two-party system has proven stable, being in place since the end of the civil war (regardless of internal splits in the major parties ARENA and FMLN). However, despite the social roots of the party system, voter volatility tends to be rather high and, according to reports by the newspaper La Prensa

Party system

Gráfica, voter volatility has increased at the municipal level.

Numerous interest groups and associations with diverse societal agendas operate in El Salvador. However, despite the generally peaceful coexistence of interest groups with partially competing interests, the network is not very close-knit. Rather, interest representation is stacked against organizations with particular political or human rights agendas, such as workers' unions or associations that campaign for the rights of homosexuals. The hardships such organizations experience from the state authorities (inter alia delays or denials of application for legal standing) account for this asymmetric representation of interests.

Interest groups

Consent to democracy in El Salvador has fluctuated in recent years. The “crisis of faith” vis-à-vis democracy in 2001, with only 25% of the interviewees preferring democracy to any other form of government according to Latinobarómetro, seemed to have been overcome by 2004, when 50% of the interviewed individuals preferred democracy. However, the score of consent to democracy dropped under the 50% threshold again in 2005. Then, only 43% of the interviewees preferred democracy to any other form of government. By 2005, the degree of democratic consent by the Salvadoran population recovered and increased to 51%. While these recent developments show that consent to democracy in El Salvador is subject to strong fluctuations, there have been no political protests calling the constitutional framework into question.

Consent to democratic norms

Human rights observers welcome the continuously growing strength of the Salvadoran civil society. Numerous civic associations with diverse agendas operate in El Salvador despite certain hardships they experience from the state authorities, such as delays in approval of their legal standing or lack of support in cases of discrimination. Overall, the web of autonomous, self-organized groups, associations and organizations is robust, but not very close-knit. Trust among the population is comparatively low, with only 17% of the interviewees believing that they can trust a majority of the population according to Latinobarómetro 2006. The strength of gang violence and persistently high levels of crime in El Salvador account for this tendency.

Associational activities

II. Market Economy

6 | Level of Socioeconomic Development

Persistently high levels of poverty, long-term ingrained socioeconomic inequalities and practices of social exclusion are among the greatest challenges to El Salvador's socioeconomic development. According to the World Development Report 2006, 48.3% of the Salvadoran population lives below the poverty line, with 31.1% living below \$1 a day. Poverty is more pronounced in rural areas (with 55.7% of people living below the poverty line) than in urban areas (with 43.1% of people living below the poverty line). These data correspond to a human poverty index (HPI-1) value of 15.7% according to the Human Development Report 2006. Surveys by the Instituto Universitario de Opinión Pública (IUDOP), however, show that while socioeconomic issues had been perceived as predominant challenges to El Salvador before mid-2006, issues of crime and insecurity have become the greatest concern for the Salvadoran population at the end of 2006. Then, only 14.5% of the interviewees considered poverty to be the biggest problem in El Salvador, which represents a significant drop from 70% at the end of 2004. The Gini coefficient score of 0.524 in 2006 highlights the continued challenge of socioeconomic inequalities in El Salvador, even though the higher Gini coefficient score of 0.532 in 2005 and 2004 indicates a slight decrease in inequality. A recent report by the UNDP on the impact of migration on the Salvadoran society and economy emphasizes that remittances play a significant role in balancing socioeconomic disparities. Without remittances, inequality and poverty in El Salvador would be more severe. Based on data from 2004, the Gini coefficient would have risen from 0.50 to 0.54 if remittances were removed as a component of household income. Likewise, the national level of households in extreme poverty would have been seven percentage points higher, with a sharper increase for rural than for urban areas. Problems of social exclusion have persisted in recent years. In particular, women and indigeneous peoples continue to face discrimination in educational and economic opportunities, particularly in hiring and salaries. The Gender-related Development Index had a value of 0.725 in 2006, which represents a slight increase compared to its value in 2004 (0.709).

Socioeconomic
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	14,307	15,047	15,822	16,974
Growth of GDP	%	2.3	2.3	1.8	2.8
Inflation (CPI)	%	1.9	2.1	4.5	4.7
Unemployment	%	6.2	6.9	6.8	-
Foreign direct investment	% of GDP	3.3	0.9	2.4	3.1
Export growth	%	6	4.7	6.6	0.4
Import growth	%	1.5	4.8	4.3	0.8
Current account balance	\$ mn.	-405.2	-702.2	-631.8	-786.5
Public debt	\$ mn.	4,710.4	5,210.9	5,382.7	4,759.8
External debt	\$ mn.	6,002.0	7,079.3	7,822.6	7,088.4
External debt service	% of GNI	3.6	4.6	5	4
Cash surplus or deficit	% of GDP	-4.7	-2.5	-3.3	-4.4
Tax Revenue	% of GDP	10.7	11.2	11	12.6
Government consumption	% of GDP	10.3	9.9	9.7	9.6
Public expnd. on edu.	% of GDP	2.9	2.8	-	2.8
Public expnd. on health	% of GDP	3.6	3.4	3.5	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.8	0.7	0.7	0.6

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

The government under President Saca (inaugurated in 2004) continued to pursue policies of market liberalization and privatization. According to the 2006 Index of Economic Freedom, El Salvador is one of the most open trade and investment environments in Latin America, comparing favorably to Chile and Mexico. The Salvadoran government has also continued efforts to achieve greater trade liberalization in the Central American region. El Salvador was the first country in which the Dominican Republic - Central American Free Trade Agreement (DR-

Market-based
competition

CAFTA) came into effect (1 March 2006), promising even further liberalization of the Salvadoran market, in particular in the agricultural sector. Economic ties with the European Union have been growing in strength. At the end of 2005, there were 13 free zones operating in the country, 12 of which were Maquila textile businesses. These firms are mostly owned by Salvadoran, U.S., Taiwanese, and Korean investors and employ approximately 70,000 people. The rules for market competition are well established and guaranteed by the state, contributing to El Salvador's attractiveness for investment. The state does not intervene in processes of the market, despite pressures from certain parts of the Salvadoran civil society against liberalization and privatization policies. Opportunities for all market participants are largely equal. The 1999 Investment Law grants equal treatment to foreign and domestic investors and establishes procedures to settle disputes between foreign investors and the government. Foreign investors may freely establish businesses in El Salvador, with the exception of small businesses (ten or fewer employees and sales of less than \$68,571/year). Investors who begin operations with ten or fewer employees must present plans to increase employment. The Investment Law created the National Investment Office (ONI) at the Ministry of Economy, the main function of which is to facilitate the registration of new investments in the country. There are no restrictions on using or transferring profits. According to the 2006 U.S. Investment Climate Statement, foreign businesses can freely remit or reinvest profits, repatriate capital, and bring in capital for additional investment. According to Transparency International, the informal sector in El Salvador is comparatively small, again underlining El Salvador's relatively low occurrence of corruption as compared to other Latin American countries. Thus, El Salvador possesses an appropriate and efficient institutional framework of economic policy.

The Salvadoran economy is dominated by business oligarchs who own the main share of enterprises, haciendas and banks. Among the most influential family-entrepreneur groups are Cristiani-Burkard-Llach-Hill, Mathies-Regalado-Duenas-Baldocchi, Murray-Meza-Ayau and de Sola. The Asociación Nacional de la Empresa Privada (National Association of Private Enterprise, ANEP), the biggest entrepreneur association in El Salvador, exercises great influence in the economic arena. Certain foreign-based multinational enterprises were able to achieve some form of monopoly status, despite Article 110 of the Salvadoran constitution, which bans the establishment of monopolies. It allows only for those on behalf of the state or municipalities when social interest makes the practice essential. Meanwhile, Salvadoran companies have been expanding increasingly within the Central American region. The Ley de Competencia which came into effect on 1 January 2006, and the established creation therein of an autonomous Superintendencia for Competition are intended to abolish monopolistic practices and achieve a more efficient and competitive economy in El Salvador. This law prohibits anticompetitive practices such as collusion to fix prices, limiting

Anti-monopoly
policy

production, rigging bids and engaging in exclusive dealing. Certain abuses of dominant market position are also illegal, such as creating barriers to entry for other firms; predatory pricing to drive out competitors; or price discrimination intended to limit competition. International observers welcomed the Competition Law and the establishment of the Superintendency for Competition, but their effectiveness in abolishing monopolistic practices in the Salvadoran economy remains to be evaluated.

Foreign trade is mostly liberalized, and there is no fundamental state intervention in free trade. The government under President Sacca continued its efforts to establish and deepen bilateral and multilateral free trade agreements, emphasizing privatization and liberalization as means for achieving economic wealth and progress not only for El Salvador but also for the Central American region. International organizations such as the IMF and the World Bank expect El Salvador to gain considerably under the DR-CAFTA, as it assures access to U.S. markets and further liberalizes free trade among the Central American countries, under which El Salvador is an industrial leader. Further free trade arrangements have been made inter alia with the European Union, Mexico, Chile and Panama. Negotiations on the establishment of a free trade agreement with Canada have been underway since 2001; officials from Canada and the Central America Four met informally in July 2006 to work toward an agreement for the near future.

Liberalization of
foreign trade

Institutional foundations for a solid banking system and capital market have been laid in accordance with international standards. According to the U.S. Department of Commerce, the Salvadoran banking system is sound, and in general, well-managed and supervised. In its 2006 report on El Salvador, the IMF described the Salvadoran banking system as one of the strongest in the region. Foreign banks are afforded national treatment under the 1999 Banking Law and amendments made in 2002. This law helped the Salvadoran banking system to achieve international standards, strengthened supervisory authorities, included provisions to enhance more transparent and secure operations for customers and banks and increased the minimum capital reserve requirement for banks to 100 million colones (\$11.4 million). The market determines interest rates and fees. The Non-Bank Financial Intermediaries Law regulates organization, operation and activities of microfinance institutions. The Superintendent of the Financial System supervises businesses in the financial system. Foreign investors may obtain credit in the local financial market under the same conditions as local investors, and accounting systems are generally consistent with international norms, according to the 2006 U.S. Investment Climate Statement. According to the IMF, banking regulations have improved in recent years, and banks' liquidity has remained comfortable. Particular progress has been made regarding bank resolution practices and the issuing of stricter banking norms. However, weaknesses of the Salvadoran banking system include the incompleteness of the

Banking system

dollarization regime due to fiscal constraints, the need to further strengthen banking supervision norms and a partially flawed financial safety net. The concentration of exports in coffee, textiles and sugar, high dependence on workers' remittances and high gross external financing needs pose challenges in the Salvadoran capital market. In their 2006 report, the IMF pointed out that this makes the Salvadoran economy susceptible to changes in the terms of trade, foreign competition, migration patterns and investor sentiment.

8 | Currency and Price Stability

With the passing of the Ley de Integración Monetaria (Monetary Integration Law) in November 2000, the U.S. dollar became legal tender in El Salvador alongside the colon, with a fixed exchange rate of 8.75 colones per US dollar beginning 1 January 2001. According to this law, the Central Bank lost its power to issue new colones or coins on the same date. The U.S. dollar now freely circulates in El Salvador and is valid in all transactions. Further aspects of the Ley de Integración Monetaria include granting the freedom to contract in any currency and naming the U.S. dollar as the unit of account for the Salvadoran Financial System. These measures were intended to improve El Salvador's economic performance and were brought into concert with other goals of economic policy, mainly to support macroeconomic stability. According to the IMF, inflation in El Salvador has slowed despite sharp increases in oil prices. However, inflation rates still fluctuated in recent years, between 3.3% in 2004, 4.4% in 2005 and an IMF-projected 3.7% in 2006. The Banco Central de Reserva de El Salvador (Central Reserve Bank of El Salvador) is an autonomous entity within El Salvador and is not allowed to grant loans to the government.

Anti-inflation /
forex policy

Saca's Plan de Gobierno (Plan of Government) states that an effective fiscal policy is considered the basis for the realization of the government's general objectives and that the macroeconomic stability achieved by previous governments is a "solid platform" to build upon. International observers such as the IMF and the 2006 Index of Economic Freedom emphasize the consistency of President Saca's stability policy. Building upon the progress made under his predecessors, Saca continued to pursue increases in trade and private investment as essential means to promote economic growth.

Macrostability

9 | Private Property

Property rights and the regulation of the acquisition of property are well defined in terms of acquisition, benefits, use and sale. El Salvador revised several laws in December 2005 in order to comply with DR-CAFTA's provisions on intellectual property rights, such as the Intellectual Property Promotion and Protection Law

Property rights

and the Law of Trademarks and other Distinctive Signs. Amongst others, these reforms authorize the seizure and destruction of pirated goods and make piracy punishable by a jail sentence of two to six years. Even though Article 106 of the constitution of El Salvador allows the state authorities to expropriate private property for reasons of public utility and social interest, there have been no recent cases of expropriation. There are certain but minor restrictions on land ownership and the exploitation of underground resources. Since the Investment Law states that the latter belong to the state, concessions for mining are compulsory. Regarding land ownership, no single natural or legal person, either Salvadoran or foreign, may own more than 245 hectares. Rural lands cannot be acquired by foreigners from countries where Salvadorans do not enjoy the same right. Despite these generally well-defined property rights and the overall sound regulation of the acquisition of property, the high crime rate – including criminal acts such as robbery and theft – and the state's incapability to deal effectively with it, has placed a certain de facto restraint on the assurance of private property. Moreover, according to the 2006 U.S. Investment Climate Statement, the redress of violations of intellectual property often proceeds only slowly, and there have been problems in enforcing commercial law.

Private companies are permitted, and the privatization of the Salvadoran economy has been consistent with market principles. The process of privatization began with the banking sector in 1989. State enterprises that did not provide strictly public services were sold between 1990 and 1993, while the privatization of public services, such as electrical energy distribution, telecommunications and pensions began in 1996. The Ley de Competencia, which came into effect on 1 March 2006, and the creation of the Superintendencia for Competition established therein are expected to abolish monopolistic practices and further enhance the competition of enterprises in the Salvadoran market. The government regards privatization and market liberalization as the most important means to guarantee the economic progress and wealth of El Salvador. International observers such as the U.S. Department of State and the IMF regard privatization as having played an important role in attracting foreign investment, particularly in the electricity, telecommunications and pension funds sectors. Critics, however, regard these processes as strengthening the power of the oligarchy in El Salvador rather than increasing the wealth of all Salvadorans.

Private
enterprise

10 | Welfare Regime

The Salvadoran social security system is based on the Ley del Sistema de Ahorro para Pensiones (Law on the System of Pension Savings), approved in December 1996. It established a new private insurance system – the first in Central America – in making private insurance mandatory. The law requires both employee and

Social safety nets

employer to contribute a percentage of their earnings plus an administrative fee to an individual account in a pension fund management company that is supposed to invest that money. In 1998, the transition from the pay-as-you-go pension system to fully funded private accounts was initiated. The provision for early retirement was phased out in 2004. Numerous reports about employers and employees not paying into their pension funds indicate that the Salvadoran social security system is neither very comprehensive nor efficient. Moreover, as international observers such as the International Labor Organization and Human Rights Watch point out, a high number of individuals, including those working in hazardous activities, have no health, accident and life, pension or unemployment insurance. This is particularly common in rural areas, where the poorest parts of the population live. Measures to avert social risks are thus rather rudimentary and extremely segmented in El Salvador, and their extent depends on territory and social stratum. The government's measures to reduce poverty have been only marginally effective, with nearly half (48.3%) of the Salvadoran population living below the poverty line in 2006. While a recent report by the UNDP highlights that remittances contribute to a reduction of inequalities and poverty in El Salvador, family, friendship or neighborhood ties are nevertheless unable to compensate for the prevailing gross socioeconomic inequalities.

There are no institutions to compensate for gross social differences. Although the Salvadoran constitution guarantees that basic education and that of children with special needs must be free of charge, many schools reportedly violate the law by implementing fees to cover budget shortfalls or to pay for required books, uniforms and activities. Discrimination against homosexuals, persons with disabilities, women and indigenous people persisted during the period under review. Especially the latter two groups continued to face discrimination in educational and economic opportunities, particularly concerning hiring and salaries. While the government has launched some programs to empower women in recent years, equality of opportunity is not a priority in the government's political agenda. Consequently, human rights observers criticize insufficient government funding to promote equal opportunities for women, indigenous people and persons with disabilities.

Equal opportunity

11 | Economic Performance

The growth performance in El Salvador has been comparatively weak in recent years, with growth rates of 2.3% of GDP in 2002 and 2003, 1.8% in 2004, 2.8% in 2005 and 3.5% (as projected by the IMF) in 2006. Factors contributing to these low levels of growth have been the impact of natural disasters – most recently, hurricane Stan and the eruption of the volcano Ilamatepec in October 2005 – low investment levels, fiscal weaknesses – resulting inter alia from large pensions

Output strength

outlays – and El Salvador’s vulnerable external position. Inflation has fluctuated, but has nevertheless slowed despite sharp increases in oil prices. According to the IMF, the inflation rates were 1.2% in 2002, 2.8% in 2003, 3.3% in 2004, 4.4% in 2005 and 3.7% in 2006. Unemployment rates between 2002 and 2004 were comparatively constant around 7%, with data for 2005 and 2006 not yet available. Investment rates dropped from 17% of GDP in 2003 to 16% in 2004 and 15.4%, but recovered slightly to 16.5% in 2006. The trade balance has been fluctuating in recent years with export growth rates of 4.4% in 2002 and 2003, increasing to 5.8% in 2004, dropping to 2.9% in 2005 and recovering to 7.6% in 2006. Likewise, import growth increased from 1.3% in 2002 to 11.4% in 2003, decreased to 10.3% in 2004 and 7.4% in 2005, before it reached 10.9% in 2006. The external debt amounted to 55.4% of GDP in 2005 and 55.6% in 2006. Since 2004, the budget balance has settled around -3% of GDP, with -2.9% in 2004, -3.0% in 2005 and projected at -2.8% in 2006.

12 | Sustainability

Environmentalists criticize the subordination of environmental concerns to growth efforts in El Salvador. Despite voluntary agreements in the context of international environmental law, multinational corporations operating in the country frequently do not comply with ecological standards, which the Salvadoran state authorities rarely uphold. The insufficiently enforced regulations on the reprocessing of water by mining companies are a case in point. Due to the lack of supervision mechanisms for compliance with environmental law, water pollution as a result of mining activities was reported in 9 out of the 14 departments in El Salvador during the review period. The state authorities’ neglect of this problem led to rallies by representatives of local governments, the church and diverse NGOs in July and August 2006. Environmentally damaging infrastructure projects and illegal clearings contribute to the danger of tropical storms. However, plans for innovations in coffee plantations to conserve biodiversity and a recently granted loan by the World Bank to strengthen the national protected areas system indicate the growing relevance of environmental concerns in El Salvador. The success of these projects remains to be evaluated.

Environmental
policy

The public expenditure on education is rather low, at only 2.9% of the GDP from 2000 to 2002, and there are serious inconsistencies across the country in institutions for education, training and research and development. Particularly in rural areas, the few schools are sometimes difficult to reach for children, who have to walk up to four kilometers each day to and from school. Illegal school fees disadvantage those from a poor family background and, among other factors, contribute to high dropout rates. According to the World Bank, El Salvador’s 19 universities are underperforming in terms of innovation and scientific publication,

Education policy
/ R&D

mainly due to insufficient investment in research and development. Nevertheless, the educational system of El Salvador is of a higher standard than in neighboring countries Honduras and Guatemala. Also, the government has initiated major reforms of the secondary education system in recent years to increase access to educational facilities and improve the quality of the education offered. A World Bank loan granted in 2005 is expected to further contribute to this aim. However, the results of these efforts are yet to be seen.

Transformation Management

I. Level of Difficulty

Several factors severely constrain the political leadership's governance capacity. Rates of poverty are persistently high, with 48.3% of the population living below the poverty line, according to the World Development Report 2006, including 31.1% of Salvadorans living below \$1 a day. Children suffer chronic malnutrition and schools high dropout rates. In the UNDP Education Index 2006, El Salvador scored 0.76, which indicates a badly educated labor force as compared to other Latin American countries. Crime rates have been persistently high, with around nine murders per day. The deportation of Salvadorans with criminal records from the United States strengthens gang violence. Overall, the number of deportations from the United States increased from 7,239 in 2005 to 13,530 in 2006. Infrastructural deficiencies are particularly severe in some rural areas. High dependence on workers' remittances (reaching a total of roughly \$2.8 billion per year, according to the World Bank), exports concentrated in coffee, textiles and sugar and high gross external financing needs (17% of GDP) further contribute to the country's vulnerable external position. The recent series of natural disasters posed a particularly challenging constraint on the political leadership's governance capacity. Still recovering from the damages caused by Hurricane Mitch in 1998 and two earthquakes in 2001, the impact of Hurricane Stan and the eruption of El Salvador's highest volcano, Ilamatepec, in October 2005 imposed further social and economic costs on the country. According to CEPAL calculations, the recent natural disasters in El Salvador caused damages of \$35.5 million. Their impact was most severe for the poor segments of society.

Structural
constraints

The traditions of civil society in El Salvador are rooted but rather weak. Having played a relevant political role at the beginning and towards the end of the civil war, civil society lost prominence in the 1990s. However, civil society in El Salvador has strengthened in recent years, as evidenced by the establishment of various new associations as well as several social movements, targeting such issues as the environmentally damaging mining activities in July and August 2006. However, the government rarely involves civic organizations in its policy formulation. Rather, associations with specific political and human rights agendas face obstructions from the state authorities, such as denials or delays in

Civil society
traditions

the approval of their legal standing. Instead of attempting to overcome the polarization between left- and right-wing groups in El Salvador's civil society, the government has fueled distrust between them. A case in point is ARENA-President Saca's public blaming of the left-wing opposition party FMLN for the violence in the July 2006 protests against electricity and public transport price increases. Social trust and trust in institutions alike are comparatively low. According to results by the Latinobarómetro 2006, only 17% of the interviewees believe that they can trust a majority of people. The persistently high levels of crime and the growing strength of maras explain this low level of social trust. Recent surveys by the Instituto Universitario de Opinión Pública (IUDOP) show that the most trusted institution in El Salvador is the Catholic Church (with 42.6% of the interviewees stating that they trust it a lot), while only 15.6% of the interviewees trust the central government and just 8.0% the Legislative Assembly. The political polarization of the country aggravates these low levels of trust in government institutions.

The Salvadoran Protestant community continues to grow and indigenous people are persistently discriminated against in the economic sector. Nevertheless, the salience of religious and ethnic cleavages in El Salvador remains marginal, with low risks of conflict erupting along these lines. On the other hand, Salvadoran society is deeply divided along socioeconomic inequalities. Human rights observers have reported numerous instances of discrimination in different spheres against the poor. But while the social divide between rich and poor, reflected in a Gini coefficient score of 53.2, poses a serious challenge to the state authorities, no political actors have tried to mobilize the poor into violent conflicts.

Conflict intensity

II. Management Performance

14 | Steering Capability

The government declares constitutional democracy and a socially responsible market economy as their strategic long-term aims. While progress has been made in furthering the development of El Salvador's market economy, little has been achieved in the context of political and social reforms. The government has done little to deal effectively with the persistent problems such as poverty and high crime rates. Despite numerous reports on human rights violations, the state authorities have not brought those responsible to justice. In the context of the

Prioritization

2006 elections, the freedom and fairness of the electoral process was clearly subordinate to short-term interests of political gain, evidenced by the undermining of the authority of the Tribunal Supremo Electoral and the violation of the constitutional requirement of presidential neutrality.

The government implements many of its reforms effectively, mostly in the economic sector. Significant steps were made in the development of El Salvador's market economy with the coming into effect of the DR-CAFTA on 1 March 2006 and of the Ley de Competencia on 1 January 2006. Political reforms, such as of the electoral code reform before the 2006 elections, were also implemented effectively, but did not enhance democratic quality.

Implementation

The political leadership's inability to address persistent problems such as poverty, unequal income distribution, high crime rates and infrastructural deficiencies in rural areas effectively shows little willingness in policy learning. The rigid enforcement of the "Mano Dura" and "Super Mano Dura" strategies to combat crime in El Salvador despite their apparent inefficacy provides a blatant example of this obstinacy. While the crime rates remain high and the strength of maras has been growing in recent years, the government has not innovated its approach to these problems, but rather tightened its policy course of "strong hand" by deploying more military troops in police patrols and razzias. On a similar note, international observers criticize the Salvadoran government for acting neither fast nor thoroughly enough in the preparations and reconstructions for hurricane Stan and the eruption of volcano Ilamatepec in 2005, despite previous experiences with natural disasters.

Policy learning

15 | Resource Efficiency

The government is making efficient use of a major part of its economic resources. In particular, reforming the export market has met challenges for El Salvador's trading position. The dollarization of the economy, the generally well managed banking system and the implementation of the Competition Law contribute to the country's attractiveness for foreign investment. On the other hand, human resources are not used efficiently. This is due to high dropout rates from schools, problems in the realization of workers' rights, a deficient infrastructure particularly in rural areas and high levels of emigration, which of course results in a brain drain. The government also lacks coherent policies and law enforcement to deal effectively with malnutrition and other health risks, such as those involved in working on coffee or sugar plantations.

Efficient use of assets

The government coordinates its policies effectively and acts in a coherent manner. As during previous years, there continues to be a form of divided government, with the two major opponents FMLN and ARENA holding the

Policy coordination

largest share of seats in the Legislative Assembly in a very close contest under an ARENA-presidency. Having won 32 (FMLN) and 34 (ARENA) out of 84 seats in the 2006 elections respectively, neither party has been able to secure an absolute majority in the legislature. However, together with its traditional ally, the PCN, which won 10 seats in the last legislative elections, ARENA will be able to reach decisions requiring an absolute majority. The case is more complicated for procedures such as the appointment of a new attorney general or the raising of international loans (exceeding \$376 million), which require a qualified majority of 56 seats. Hitherto, this need for political compromise between different parties has not yet led to any major deadlock within the government, and in light of the efficient performance of previous divided governments in El Salvador, the development of any major deadlock in the near future currently seems unlikely.

Corruption among state authorities has reportedly been widespread and rather substantial, thus placing constraints on the judiciary's efficiency in particular. Despite repeated public assurances by President Saca to combat corruption in El Salvador – most recently in the United Nations Convention against Corruption in December 2006 – NGOs such as the Fundación Salvadoreña para el Desarrollo Económico y Social (Salvadoran Foundation for Economic and Social Development) criticized the insufficient efforts to remove corrupt officeholders. Further integrity mechanisms are either lacking, such as a law on the declaration of party financing, or constrained, for instance due to delays in the release of information and public records by the state authorities.

Anti-corruption
policy

16 | Consensus-Building

Even though certain setbacks in the democratic performance of El Salvador became obvious during the 2006 elections – due to President Saca's violation of the constitutional requirement of presidential neutrality and the undermining of authority of the Tribunal Supremo Electoral – all major political actors agree that democracy is a long-term strategic aim. Regarding El Salvador's economic system, on the other hand, the two major political parties ARENA and FMLN have very different objectives. While ARENA has been pursuing and emphasizing the need of free market policies as long-term strategic aims, FMLN representatives have been critics of the liberalization and privatization course. Supporting this criticism, an increasing number of social movements among the Salvadoran population have been forming in recent years. These movements protest against the socially and environmentally damaging effects of the free market project. Cases in point are the protests against the electricity and public transport price increases in July 2006 and the rallies against environmentally damaging mining activities in July and August 2006. Nevertheless, despite the

Consensus on goals

growing strength of such social movements, they do not yet challenge market economy in El Salvador as such, and other autonomous associations, such as the Asociación Bancaria Salvadoreña (Association of Banks of El Salvador), clearly support free market policies.

There are no significant anti-democratic veto actors in El Salvador.

Anti-democratic veto actors

The political leadership does not act consistently to prevent political cleavages from escalating into conflict. Rather, government members reinforce the dividing line between left- and right-wing groups in Salvadoran society by accusing the main opposition party FMLN of responsibility for the high levels of violence and crime. Moreover, the political leadership does not take coherent steps to compensate for gross social and economic inequalities, or to address poverty, malnutrition of children or the deficient infrastructure in rural areas. Nevertheless, cleavage-based conflicts do not seem likely to escalate in the near future, although they hinder the pace of development of El Salvador.

Cleavage / conflict management

International observers such as from the European Union call for improvements in the representation and involvement of civil society in the formulation of public policy in El Salvador. Indeed, the government frequently ignores civil society actors and formulates its policy autonomously. Moreover, it poses hardships to certain civic associations, such as trade unions, by denying or delaying applications for legal standing, and fuels the distrust between left- and right-wing groups. For instance, government members make public accusations that there is a direct linkage between representatives of FMLN and its affiliates with the maras. Reports by the Asociación de Periodistas de El Salvador (Association of Journalists of El Salvador) highlight instances of outright exclusion of journalists from the political process, when state authorities delayed access to public records.

Civil society participation

The political leadership of El Salvador has not made any progress to address past acts of injustice or to bring about a process of reconciliation. Despite heightened demands for the abolishment of the General Amnesty Law in the context of the 25th anniversary of the murder of Archbishop Oscar Arnulfo Romero on 24 March 2005, the government maintains its stance that investigations into human rights violations during the civil war should be avoided, as they would reopen wounds of the past. The Human Rights Ombudsman of El Salvador, Beatrice de Carrillo, and the Inter-American Court of Justice regard the 1993 General Amnesty Law as unconstitutional. Foreign courts continue to prosecute acts of injustice committed during the civil war. The sentencing of former Vice-Minister of Defense Nicolas Carranza for torture and mass murder by a court in Memphis, USA, in November 2005 exemplifies this. In March 2006, the Inter-American Court of Human Rights accepted a request by the Catholic human rights organization Tutela Legal to investigate the massacre of El Mozote from 1981.

Reconciliation

The Salvadoran political leadership has also failed to fully implement a 2005 ruling by the Inter-American Court of Human Rights which compels the state authorities inter alia to set up a National Search Commission to trace “disappeared” children. Inefficient structures and corrupt practices within the judiciary as well as a lack of political will contribute to the failure to address past acts of injustice or to bring about a process of reconciliation.

17 | International Cooperation

The Salvadoran government makes efficient use of international cooperation to realize its domestic policy agenda, particularly in economy-related initiatives. El Salvador continues to be one of the main driving forces for trade agreements in the Central American region, which supports the government’s economic objectives. It was the first country in which the DR-CAFTA came into force (1 March 2006), an agreement expected to benefit the Salvadoran economy considerably, as it assures access to US markets and further liberalizes free trade among the Central American countries, of which El Salvador is an industrial leader. El Salvador has made further free trade arrangements inter alia with the European Union, Mexico, Chile and Panama. The World Bank granted the Salvadoran political leadership several loans in 2005 and 2006 to support domestic reform projects, inter alia to increase secondary school enrollment and completion rates among disadvantaged groups, as well as to conserve Salvadoran biodiversity by strengthening the national protected areas system.

Effective use of support

El Salvador has established itself as a credible and reliable partner in the international community, in the context of economic and trade agreements, due to its commitment to political dialogue with other Central American countries in the framework of SICA (Central American Integration System) and by providing humanitarian and military aid on a global scale. Ties with the United States continue to be strong, not only because of trade relations and the Salvadoran community living in the USA, but also due to the continued presence of Salvadoran troops – the only ones from Latin America – in Iraq. During her April 2005 visit to Latin America, Condoleezza Rice called the Salvadoran political leadership a strong and reliable partner in the global fight against terrorism. The European Union, El Salvador’s third most important trading partner after the USA and the other Central American countries combined, praises the political leadership’s constant efforts for bilateral and multilateral trade agreements. During the Vienna Summit of Heads of States of the E.U., Latin America and the Caribbean in May 2006, it was decided to launch the negotiation of an Association Agreement between the E.U. and Central America.

Credibility

The Salvadoran political leadership maintains and promotes stable economic and political relations with neighboring countries within the framework of several

Regional cooperation

trade agreements such as DR-CAFTA, and of international organizations such as PARLACEN, SICA and the Conference of Central American Armed Forces (CFAC). Despite repeated territorial disputes between El Salvador and Honduras – most recently over Conejo Island in October 2006 – the two countries enjoy normal diplomatic and trade relations.

Strategic Outlook

El Salvador remains among the best performing Latin American countries in economic terms, receiving praise from numerous international organizations such as the European Union and the IMF. The Ley de Competencia, which aims at abolishing monopolistic practices and came into effect on 1 January 2006, and the commencement of the Dominican Republic – Central American Free Trade Agreement (DR-CAFTA) on 1 March 2006 mark two big steps forward in developing the country's market economy. The latter promises to bring considerable benefits to the Salvadoran economy, particularly as it assures access to U.S. markets and further liberalizes free trade among the Central American countries. However, the Salvadoran state authorities' failure to address human rights violations sufficiently raises concerns over the alarmingly inadequate references to workers' rights in the DR-CAFTA document. President Saca's government as well as El Salvador's international trading partners therefore ought to be more rigorous in considering human rights.

Moreover, the political leadership needs to address the setbacks in El Salvador's democratic performance during the 2006 elections. Clearly violating the constitutional limits of his office by entering the electoral campaign, President Saca has to rebuild confidence in the neutrality of his position and to reassure his role as president of all Salvadorans notwithstanding their political affiliation. Further measures have to be taken to adjust the damage inflicted upon the authority of the Tribunal Supremo Electoral when both Farabundo Martí National Liberation Front (FMLN) and Nationalist Republican Alliance (ARENA) declared their electoral victory in San Salvador before the publication of the official results. To strengthen the population's trust in democratic institutions and moderate the apparent polarization between left- and right-wing groups, political officeholders need to demonstrate the will to compromise. Instead of engaging in slanderous campaigns and mutual accusations of acts against the common good, they ought to serve as promoters of political consensus. Policy strategies that have proven inefficient, such as the attempts to combat crime by "Mano Dura" and "Super Mano Dura," need to be replaced by innovative tactics. The success of local projects such as "Municipalities Free of Weapons Carrying" in San Martín and Ilopango might pave new paths in effectively reducing the homicide rate. Despite the government's overall positive management performance, the persistence of gross socioeconomic inequalities, poverty and deficient infrastructures particularly in rural areas indicate an unbalanced prioritizing of social issues. The political leadership needs to give these issues their due attention to avoid further political alienation and cleavage-based conflict.