

BTI 2012 | El Salvador Country Report

Status Index	1-10	7.23	# 30 of 128	
Political Transformation	1-10	7.45	# 32 of 128	➔
Economic Transformation	1-10	7.00	# 30 of 128	➔
Management Index	1-10	6.79	# 13 of 128	

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

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	6.2	HDI	0.674	GDP p.c.	\$	6668
Pop. growth ¹	% p.a.	0.5	HDI rank of 187	105	Gini Index		46.9
Life expectancy	years	72	UN Education Index	0.637	Poverty ³	%	15.2
Urban population	%	61.3	Gender inequality ²	0.487	Aid per capita	\$	44.9

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

The March 2009 election of former journalist Mauricio Funes as the first Farabundo Martí National Liberation Front (Frente Farabundo Martí para la Liberación Nacional, FMLN) president since the end of the civil war has in many respects introduced a new stage in El Salvador's development toward a socially responsible free market democracy. While previous governments had made major achievements in consolidating El Salvador's market economy, the political leadership under President Funes has been committed to addressing necessary and previously neglected social and political reforms. These include, among others, policy initiatives aimed at reducing socioeconomic inequalities, addressing persistently high levels of poverty, curbing office abuse within state institutions and deepening levels of political participation. Particularly notable government achievements include the official launch of the national integrated health care system in September 2010, the provision since January 2010 of free school uniforms and school supplies to improve education opportunities for children from financially weak families, and political gestures such as President Funes' March 2010 public apology on behalf of the state for the 1980 killing of Archbishop Oscar Romero. Beyond these policies, it should also be noted that the peaceful transfer of power to the first FMLN-held presidency since the end of the civil war, as well as the maintenance of political stability despite fears of potential spillover effects from the 2009 coup in neighboring Honduras, reflect the normative agreement among El Salvador's most relevant political actors that democracy should be the only game in town.

At the same time, though the government has made significant progress in the context of political and social reforms, projects which would help further the development of El Salvador's market economy have been proceeding relatively slowly. They include, for instance, the Law on the Regulation and Supervision of the Financial System, which received parliamentary approval only in January 2011, or a law to regulate public-private partnerships, the draft of which had yet to be finalized as of January 2011. However, given that the country's economy is already among

the most open in Latin America, this is no reason for great concern. In 2009, El Salvador's economy was severely affected by the global economic slowdown caused by the global financial crisis, leading to declines, inter alia, in the country's remittances, consumption and investment levels, and trade flows. Economic activity began to recover modestly in 2010, and was expected to pick up further in 2011, in considerable part due to stabilizing conditions in the United States and the FMLN government's targeted investment plans, which seek to improve living conditions while stimulating the private sector.

History and Characteristics of Transformation

El Salvador's rather lengthy democratization process started at the end of the 1970s and beginning of the 1980s, when a group of young, radical reformist officers overthrew the government in 1979, and civilian presidents were elected to rule the country from 1984 on. A decisive step in the country's transformation process was taken when a peace agreement in 1992 officially ended the civil war that had lasted from 1980 to 1991. Approximately 75,000 individuals are estimated to have fallen victim to this violent intrastate conflict, and several thousand people who "disappeared" during the war are still missing today. Competitiveness in the presidential elections as well as the extent of presidential powers increased from 1984 onward. While the presidential powers of José Napoleón Duarte Fuentes (1984 – 1989) were still strongly restricted by the military, his successors' powers became significantly greater. Duarte's successors in office were Alfredo Félix Cristiani Burkard (1989 – 1994), Armando Calderón Sol (1994 – 1999), Francisco Guillermo Flores Pérez (1999 – 2004), Elías Antonio Saca González (2004 – 2009) and Carlos Mauricio Funes Cartagena (since 2009). Apart from Duarte, who was a member of the Christian Democratic Party (Partido Demócrata Cristiano, PDC), and Funes, who belongs to the Farabundo Martí National Liberation Front (Frente Farabundo Martí para la Liberación Nacional, FMLN), all presidents since the end of the civil war had been candidates of the right-wing Nationalist Republican Alliance (Partido Alianza Republicana Nacionalista, ARENA). The FMLN is a former left-wing guerilla movement that was successfully transformed into a major political party.

In a close contest, the FMLN and ARENA won the largest number of seats in the legislative elections of January 2009, respectively gaining 35 and 32 out of a total of 84 seats. The results of the electoral contest for the presidency in March of the same year were equally close, as FMLN candidate Mauricio Funes obtained 51.32% compared to ARENA candidate Rodrigo Ávila's 48.68%. The deep polarization and persistent distrust between these two major parties reflects a deep division within society along the ingrained socioeconomic cleavage of rich and poor, and has quite substantially hindered the development of a more democratic political culture.

Beginning in 1989, ARENA-led governments consistently pursued a process of economic transformation marked by privatization and liberalization. These policies were applied to the former public service sector from 1996 onward. The Salvadoran economy is today one of the

most open in Latin America, with one of the most comprehensive and sound regulatory frameworks for market activities in Central America. The political leadership under President Funes is committed to preserving the privatization and liberalization achievements of previous governments, while increasing social spending in order to curb persistently high levels of poverty and socioeconomic inequality. These policy objectives are remarkable given the historical and regional context, and depending on their long-term effects, might represent a new stage in El Salvador's progress toward a socially responsible free market democracy. Previous governments had lacked coherent anti-poverty policies, and decisions tended to benefit a small oligarchic business elite in particular.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

The state's monopoly on the use of force extends throughout the entire territory of El Salvador and is not threatened by any major guerilla or paramilitary group. However, persistently high levels of crime continue to challenge the state's authority. According to statistics by the Salvadoran National Police, there were 3,985 murder victims in 2010. Although this represents a 9.1% year-over-year drop in the murder rate (in 2009 there were 4,382 homicides, the highest reported murder rate in El Salvador within the last decade), these numbers nonetheless remain well above officially documented levels of crime in the early 2000s. El Salvador is one of the most dangerous countries in Latin America, with an average of 10.9 homicides per day in 2010 (compared to 12 in 2009 and 8.7 in 2008) and an especially high concentration of crime in the metropolitan area of San Salvador. Scholars and policy-makers have long cited the prevalence of gangs (maras), the impunity afforded to perpetrators of criminal acts, the country's geographic placement on Central America's drug transit route, poverty and socioeconomic inequalities as central drivers of El Salvador's problems with crime. More recently, President Mauricio Funes and Salvadoran Foreign Minister Hugo Martinez also expressed concern that attempts by Mexican drug cartels to expand their bases of operation into El Salvador might lead to a further increase in levels of violence.

Monopoly on the
use of force

6

The ability of the maras to challenge the authority of the state – though possibly overstated in a climate of perceived spiraling of violence – became particularly apparent in early September 2010, when two of El Salvador's most prominent gangs, Mara 18 and Mara Salvatrucha, enforced a three-day public transport disruption in reaction to the Legislative Assembly's approval of the Law for the Proscription of Gangs, Cliques, Groupings, Associations and Organizations of a Criminal Nature. This law, which makes gang membership illegal and contains a variety of provisions penalizing gang members, their supporters or beneficiaries, followed unprecedented violent attacks on two passenger buses in San Salvador on

20 June, in which 17 people were killed. The gang-enforced strike did not succeed in pressuring the government into policy concessions, as the anti-gang law nonetheless went into effect on 19 September, but did create significant nationwide disruptions by affecting approximately 80% of El Salvador's public transport and costing the country at least \$24 million in lost revenues.

According to the constitution, all Salvadorans over the age of 18 are considered citizens of the state. Nobody is formally denied aspects of citizenship on the grounds of belonging to specific religious, political or ethnic groups, or because of gender or sexual orientation. De facto, however, members of certain groups, including women, homosexuals, and indigenous and disabled persons, continue to face socially embedded violations of their civic rights which frequently go unpunished or ignored by the state authorities. Some notable developments regarding the protection of civic rights for homosexuals include, first, the September 2009 parliamentary failure of proposed constitutional amendments that would have banned same-sex couples from marrying and adopting children, and second, the issuing in May 2010 of a presidential decree by President Funes against discrimination in the public service on the basis of sexual orientation or gender identity.

State identity
9

The legitimacy of the nation-state is not questioned in principle.

The constitution explicitly recognizes the juridical status of the Catholic Church, while establishing the right of all other churches to be officially acknowledged. Most Salvadorans are Roman Catholic, while Protestant believers constitute the largest religious minority.

No interference of
religious dogmas
10

Article 82 of the constitution prohibits persons who hold religious offices from belonging to political parties or from running as electoral candidates for positions of political power. Church and state are broadly separate, and religious dogmas in general have no noteworthy influence on politics or the law. Apart from Mauricio Funes' presentation of his Moral Rescue Plan (Plan de Rescate Moral) in early March 2009, which as part of an explicit campaign of outreach to El Salvador's Christian churches, contained several references to religious norms, religious issues played little role in the 2009 electoral campaigns of the country's two major parties, the right-wing ARENA and the left-wing FMLN. Prior to the parliamentary vote on the issue in September 2009, representatives of the Catholic Church and members of various church groups tried to pressure politicians into ratifying constitutional amendments which would have banned same-sex couples from marrying and adopting children. These attempts, however, were ultimately unsuccessful, as the amendments did not obtain the necessary number of votes in the Legislative Assembly.

The state's infrastructure and powers extend beyond maintaining law and order, but severe deficits regarding administrative structures remain, particularly in rural areas. According to a report published by the Salvadoran Ministry of Economy in July 2010, only 56.7% of homes in El Salvador's rural areas are connected to water pipes, compared to 90% of homes in urban areas. Representatives of international organizations such as EuropeAid, the Inter-American Development Bank (IDB) and USAID criticize persistent disparities between urban and rural areas in terms of housing, roads and electricity as well as in access to basic healthcare and education services. Reportedly, rural communities located near the lower regions of the Lempa, Jiboa, Paz and Grande de San Miguel rivers were particularly vulnerable to the impact of Hurricane Ida in 2009 and Tropical Storm Agatha in 2010, due to deficiencies in their water regulation and emergency response systems. These problems add to the worrying situation caused by previous natural disasters. Deficiencies in state infrastructure in rural areas have partly been alleviated by individual investments generated by remittances from the United States.

Basic
administration
6

2 | Political Participation

The Constitution of the Republic of El Salvador and its electoral code establish that elections are to be free, direct and equal, with anonymous voting. International observers described the presidential elections on 15 March 2009 as overall free and fair, and noted significant improvements regarding the conduct of the electoral process compared to the municipal and legislative elections in January of the same year. These improvements include voting centers opening in a more timely manner, a better guarantee of the secrecy of voting through the addition of curtains to polling booths, higher efficiency by poll officials, and greater security in the processing of preliminary election results. Amendments to the electoral code enabled Salvadorans residing abroad who had a national identity card (Documento Único de Identidad, DUI) to vote in the presidential elections. However, as representatives from the European Union Election Observation Mission (EU EOM) pointed out, these amendments had "minimal repercussion in practice" due to the requirement that eligible voters residing outside of the country had to cast their ballot personally in El Salvador.

Free and fair
elections
8

Improvements in the electoral process notwithstanding, the presidential elections on 15 March were still marked by several irregularities, such as the use of out-of-date voter registries, the presence of active partisan observers in the polling stations, and irregularities relating to DUIs, for instance with some individuals possessing multiple identity cards. Additionally, the lack of a proper out-of-country voting mechanism and the failure to implement residential voting (Voto Residencial) nationwide constrained the democratic character of the 2009 elections, as these conditions effectively prevented certain groups from exercising their right to vote.

The presidential election day itself proceeded in a largely peaceful manner, with reportedly fewer incidents of violence than during the legislative and municipal elections in January. This relative tranquility and the peaceful transfer of power to the first FMLN-held presidency since the end of the civil war – with FMLN candidate Mauricio Funes winning 51.32% of the votes – were the more remarkable given the highly polarized political climate, and the prevalence of negative and partly defamatory campaigning prior to the March elections. According to the EU EOM, voter turnout for the 2009 presidential elections totaled 62% of registered voters, the second-highest such percentage obtained in the 10 electoral events held in El Salvador since the end of the civil war.

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 criticize the fact that even though the government under Mauricio Funes has arguably looser ties to the dominant business class than did its predecessors, business oligarchies and foreign-based multinational enterprises continue to exercise considerable political influence. According to some observers, right-wing forces in El Salvador have been trying to constrain the government's effective power to govern, in line with a September 2009 statement by the president of ARENA's National Executive Council (and former president of the Republic), Alfredo Cristiani, citing the desire to "stop the president." Unlike neighboring Honduras, however, there is no evidence that these attempts have taken place outside the context of democratic procedures.

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 civil society groups operate in El Salvador without relevant disturbances by the state authorities. While some grassroots and human rights organizations continued to experience difficulties in winning approval of their legal status, there have been significant improvements regarding the registration rights and operation procedures of trade unions. In May 2009, the Legislative Assembly adopted a widely applauded constitutional amendment which extends the right to form unions to public sector workers. Between June 2009 and February 2010, the Salvadoran Labor Ministry granted legal status to more than 70 private and public sector unions (an increase in the number of previously registered unions by approximately 44%), a fact which reflects the more favorable legal and political environment.

The freedoms of opinion and of the press are guaranteed under the constitution and are generally respected in practice. The realm of the media is rather pluralistic and dominated by private operators. There have been no instances of censorship by the state authorities, and the media freely and routinely criticizes the government.

Effective power to govern

9

Association / assembly rights

8

Freedom of expression

8

International media can operate freely in El Salvador. Access to the Internet is not restricted.

Continuous practices of self-censorship among journalists, numerous reports of death threats and attacks against radio and newspaper editors throughout 2009 and 2010, and the murder of documentary filmmaker Christian Poveda in September 2009 give serious reason for concern. In spite of this, El Salvador is nonetheless one of the best-performing Central American countries in terms of media freedom, surpassed only by Costa Rica, according to the 2010 World Press Freedom Index by Reporters without Borders. This assessment mainly reflects the commitment and efforts of President Funes' government to bring those responsible for Poveda's death to justice. Civil society organizations and media representatives welcomed the parliamentary approval of a legislative decree in December 2010 (which as of January 2011 had yet to be signed by the president, as he returned the bill to the Legislative Assembly with some observations) that would establish a new law guaranteeing general access to public information. On the other hand, domestic and international observers expressed concern that a September 2010 ruling by El Salvador's Supreme Court removing a clause from the criminal code which protects owners, editors and managers of media outlets against criminal rulings could serve to curtail their freedom of expression in the future. However, it remains to be seen whether these concerns will in fact prove prescient.

3 | Rule of Law

The separation of powers in El Salvador is formally recognized, but continues to be constrained in practice due to persistent structural deficits in the judiciary. Inefficiency, corruption and insufficient funds undermine the strength of the judiciary, and frequently lead to a lack of appropriate legal consequences for people who belong to economically or politically influential networks. The executive and legislature are both de jure and de facto institutionally differentiated. However, the legislative branch suffers from inefficiency, a lack of funds and the country's historical clientelism.

Separation of powers

7

The judiciary's independence is constitutionally recognized, but persistent dysfunctions impair its impartiality in practice. Serious problems remain in terms of reaching the country's entire territory and promoting access to justice in rural areas. Inefficiency and corruption within El Salvador's justice system are widespread and contribute to a high level of impunity. Judicial delays, inadequate government funding for the National Police, the intimidation and killing of victims and witnesses, and the failure to remove unqualified and corrupt judges despite hundreds of complaints from private citizens continue to undermine the public's respect for the justice system. According to the 2009 annual report by the Instituto Universitario de Opinión Pública (IUDOP) at the Universidad Centroamericana

Independent judiciary

6

“José Simeón Cañas,” only 24.1% of interviewees had either some or a lot of confidence in the Salvadoran Supreme Court; this represented a rather minor increase compared to 19.8% in 2008 and 21.9% in 2007. Only 22% of interviewees in El Salvador had confidence in the judiciary system overall, according to Latinobarómetro 2010.

Although El Salvador is perceived to be one of the cleanest Latin American countries in terms of corruption, there have been numerous reports on persistent patterns of both petty and grand corruption – often linked to the organized drug trade – within state agencies, in particular the judiciary and National Police. Among the most publicized cases of corrupt practices in recent years were the corruption scandal surrounding ARENA’s departmental director in San Salvador, Adolfo Tórrez, which led to his dismissal in April 2009, and the publication of reports in December 2009 that former President Saca’s office had spent \$219 million more between 2004 and 2008 than had been officially approved by the Legislative Assembly. In light of these scandals, both ARENA and FMLN representatives announced that they would take firmer action against suspected office abuse. Throughout 2009 and 2010, President Funes has highlighted the need and efforts of his government to combat corruption. In June 2009, he created a presidential commission to investigate both the unlawful behavior of political officeholders under the previous government and the current extent of corrupt practices within state institutions.

Prosecution of
office abuse

6

Civil rights are constitutionally guaranteed. However, the civil rights of certain societal groups in El Salvador have been violated over protracted periods of time, with state authorities failing to hold perpetrators sufficiently accountable. Discrimination against women, homosexuals, indigenous people and persons with disabilities, as well as stigmatization of youth as the main security threat, remained widespread throughout 2009 and 2010. Due to the judiciary’s inefficiency and corruption, civil rights violations have been dealt with inadequately or not at all. Consequently, many victims believe their cases unlikely to be prosecuted, and rarely sue their perpetrators.

Civil rights

6

Significant structural deficiencies in the prison system and a constantly growing trend in violence against women remain among the greatest concerns for human rights observers in the country. According to a report by the Inter-American Commission on Human Rights (IACHR) from October 2010, prison conditions in El Salvador have reached “truly critical levels.” Likewise, in March 2010, the U.N. Special Rapporteur on Violence against Women highlighted the growing prevalence of violent acts against women, including murder, rape, domestic violence, sexual harassment and commercial sexual exploitation, and the frequent impunity associated with such crimes. According to the First National Report on Violence against Women in El Salvador, published in November 2009, at least 485 women were killed between 1 January and 21 October 2009, an increase of approximately

84% compared to the same period of time in 2008 and demonstrates the need for effective measures to fight such crimes of femicide.

Poor working conditions, the prevalence of child labor and human trafficking remained serious problems despite efforts by the government to address these issues. Initiatives against human trafficking for the purposes of commercial sexual exploitation and forced labor are made more difficult by the alleged involvement of some public officials in the illegal trade of human beings. Human rights groups also raised concerns about the growing involvement of the military in the fight against the country's high levels of crime, increasing the risk of violations of basic civil rights. President Funes has consistently increased the number of soldiers deployed to provide support to the National Police in patrolling border crossings, streets and prisons, with more than 6,000 soldiers – almost half the army's manpower – being involved in the fight against crime by the end of 2010. Parallel to the militarization of public security, the privatization of security deepens an unequal access to security and to public spaces.

Little has been achieved in investigating and bringing to justice those responsible for human rights violations during the civil war, as the government has refused to abolish the 1993 General Amnesty Law for the Consolidation of Peace. On the other hand, there has been significant progress regarding the state's official position toward these past injustices, as the government under President Funes took meaningful steps inter alia by apologizing for human rights abuses committed by state authorities during the civil war in January 2010, by issuing a formal apology for the murder of Archbishop Romero (during the unveiling ceremony for a mural in his honor at El Salvador's international airport) in March 2010, and by establishing the National Commission to Search for Children who Disappeared during the Civil War, which began operating officially in August 2010.

4 | Stability of Democratic Institutions

Democratic institutions in El Salvador formally fulfill their functions, but inefficiency, corruption and a lack of administrative resources continue to constrain their effective performance. Political decisions are as a rule prepared, made and implemented in legitimate procedures. However, particularly in the judiciary, formal procedures are frequently circumvented. This leads not only to insufficient prosecution of civil rights violations, but also undermines horizontal accountability among state institutions, thereby restraining the polity's effective and democratic performance to a considerable degree. While divisions within the FMLN and its mere plurality of seats in the Legislative Assembly within a strongly polarized party system cause some friction between the executive and legislature, they do not undermine democratic procedures. The funds-related failure to implement residential voting nationwide for the 2009 elections led to criticisms that the

Performance of
democratic
institutions

7

Supreme Electoral Tribunal was neglecting necessary electoral reforms that would deepen democracy in El Salvador by enabling more political participation.

The alleged involvement of political officeholders in political killings during the run-up to the 2009 elections, as well as in recent acts of violence against members of political grassroots organizations, raises serious concern about the commitment of some politicians to the principles and procedures of democracy. Among the most publicized instances of reportedly politically motivated violence have been the numerous attacks against journalists and members of community organizations in the Cabañas department throughout 2009, 2010 and early 2011. Most victims of these often-fatal attacks have been activists who had campaigned against mining exploration in the area and denounced corruption and practices of electoral fraud among local politicians. While non-governmental organizations such as Amnesty International contend that the motives for the killings and intimidation of these activists have not been investigated sufficiently, local observers suggest the involvement of local politicians.

On the other hand, despite fears over possible spillover effects from the 2009 coup in neighboring Honduras, there have been no attempts by potential veto players such as the military or the police force to replace the democratic system. The peaceful transfer of power to the first FMLN-held presidency since the end of the civil war indicates the consolidation of democratic rules among the most relevant political actors in El Salvador.

5 | Political and Social Integration

Despite increasingly apparent splits within the two major parties, the right-wing ARENA and the left-wing FMLN, as well as the formation of a new political party by several ARENA defectors in early 2010, the de facto two-party system that has been in place since the end of the civil war remains stable overall. In the 2009 legislative elections, the FMLN obtained 35 and ARENA 32 out of the Legislative Assembly's 84 seats. The three center parties in the Legislative Assembly – the Christian Democratic Party (Partido Demócrata Cristiano, PDC), Democratic Change (Cambio Democrático, CD) and the Party of National Conciliation (Partido de Conciliación Nacional, PCN) – respectively received 11 seats (PCN), five seats (PDC) and one seat (CD). The contest between ARENA and FMLN was equally close during the 2009 presidential elections, when after the withdrawal of the PDC and PCN candidates from the electoral competition, FMLN candidate Mauricio Funes obtained 51.32% and ARENA candidate Rodrigo Ávila 48.68% of the vote.

In January 2010, 12 ARENA defectors established the Great Alliance for National Unity (Gran Alianza por la Unidad Nacional, GANA), approximately three months after they first declared that they would no longer follow ARENA's party lines.

Commitment to democratic institutions

9

Party system

7

GANAs were officially recognized as a political party by the Supreme Electoral Tribunal in May 2010. With the defection of further members of parliament from the PDC, GANA held 16 seats in the Legislative Assembly by January 2011.

While President Funes' moderate policy course has led to certain frictions with more deeply left-leaning members of his party, ARENA has been split by the loss of the presidency, accusations that former President Saca acted against his party's interests and principles, and Saca's subsequent expulsion from the party in December 2009. Future electoral campaigns and intraparty politics in El Salvador are likely to be affected by a controversial Supreme Court ruling in July 2010 that the previously common use of closed lists for legislative elections and the ban on independent candidates were both unconstitutional.

Despite high levels of voter volatility, Salvadoran political parties are strongly socially rooted; this is evident in the reflection of the party system's divide in an equally polarized civil society.

Numerous interest groups and associations with diverse societal agendas operate in El Salvador, and generally coexist peacefully despite competing programs. Despite reports that non-governmental organizations with particular human rights or political agendas (such as those advocating on behalf of homosexual and transgender persons) continue to experience registration difficulties and partly have to work under the threat of physical violence (as in the case of environmentalist groups in the Cabañas department), Salvadoran civil society has been growing significantly in strength and has become increasingly close knit in recent years. This is illustrated by the plethora of demonstrations, seminars, press conferences and other activities initiated or hosted by civil society organizations in recent years, ranging from political information campaigns in the run-up to the 2009 elections to a growing number of initiatives pursuing environmental causes. While there has been a significant increase in the number of trade unions under the presidency of Mauricio Funes, the extent to which this will help workers achieve a more equitable representation of their interests vis-à-vis the strong political standing of business leaders in El Salvador remains to be seen.

A growing number of informal migrant organizations have recently gained influence both in local politics and local civil society circles. Due to the fact that these organizations are outside the national territory, they are commonly overlooked as an interest group. However, recent studies on migration show the influence of Home Town Associations in the country's political life.

Latinobarómetro survey results indicate that El Salvador has overcome the latest "crisis of faith" in democracy, dating from 2007. While only 38% of interviewees preferred democracy to any other form of government at that time, current levels of popular consent to democracy are significantly higher, reaching 68% in 2009 and

Interest groups

7

Approval of
democracy

7

59% in 2010. Regardless of the slight downward trend from 2009 to 2010, these values are among the highest seen in the second half of the 2000s. A similar trend was observed by the Latin American Public Opinion Project (LAPOP) in its AmericasBarometer.

Notably, since coming into office in June 2009, President Funes has consistently been one of the most popular presidents in the Central America–Dominican Republic region. According to survey results by CID Gallup Latin America, President Funes quickly became the most popular president in the region, tied with Panama’s President Ricardo Martinelli (both received 86% approval by their respective populations, according to CID Gallup’s August 2009 report) and has outperformed all other presidents in the region in terms of popularity since. By the end of 2010, 74% of interviewees had a favorable opinion of President Funes. As researchers at CID Gallup point out, these high approval ratings have to be seen against a background of high expectations on the part of the Salvadoran population as to what President Funes will accomplish during his presidential term.

There have been no political protests calling the constitutional framework into question.

However, other democratic institutions are accorded far less approval. According to data from LAPOP, political parties have the lowest level of approval of any institution in El Salvador, while the army, at the first place, is followed by the national government. El Salvador demonstrates comparatively low support for the rule of law in Latin American comparison, placing only one rank above Ecuador. Only 54% of those interviewed have trust in the Supreme Court, while 67% trust the army.

The network of autonomous, self-organized groups in El Salvador is robust and has become increasingly closely knit in recent years. Numerous civic associations with diverse agendas operate in the country despite continued hardships created by the state authorities, including excessive formalities which delay applications for legal standing. Reports by international observers such as the World Food Program highlight the strength of voluntary networks especially during emergencies, as when various self-organized groups combined reconstruction efforts after a series of natural disasters including Hurricane Ida and Tropical Storm Agatha hit El Salvador in 2009 and 2010.

Similarly, the level of interpersonal trust among the Salvadoran people is relatively high compared to other Latin American countries. According to survey results by Latinobarómetro, 25% of interviewees in El Salvador believed they can trust a majority of the population in 2010, compared to 28% in 2009. Despite this slight downward trend from 2009 to 2010, these results put El Salvador in Latin America’s top five countries in both years with respect to levels of interpersonal

Social capital

7

trust. Informal migrant networks have also played a key role in supporting local institutions and providing aid for communities after natural disasters.

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

El Salvador's economy is the third largest in Central America. However, persistently high levels of poverty, long-term ingrained socioeconomic inequalities and practices of social exclusion are among the greatest challenges to the country's socioeconomic development, not least as they are directly associated with high levels of crime and low levels of schooling.

Socioeconomic
barriers
4

Official data by the Salvadoran state authorities indicate that previous years' persistent upward trend in poverty levels halted in 2009, as the number of households living in poverty fell to 37.8% after having previously increased from 30.7% in 2006 to 34.6% in 2007 and 40% in 2008. Poverty remains more pronounced in rural areas (with 46.5% of households living in poverty in 2009) than in urban areas (where 33.3% of households were living in poverty in 2009). According to a 2010 report by the World Food Program, almost all people living in rural areas are subsistence farmers, smallholders or daily laborers.

Remittances contribute to the income of Salvadoran households and play an important role in reducing poverty and socioeconomic hardships. Data by the Central Reserve Bank of El Salvador indicate that, against the background of the global financial crisis, the quantity of remittances has fluctuated in recent years, increasing from \$3.7 billion in 2007 to \$3.79 billion in 2008 before falling to \$3.46 billion in 2009, and recovering again slightly to \$3.54 billion in 2010.

El Salvador ranks 90th out of 169 countries on the Human Development Index (HDI), with an HDI value of 0.659 according to the UNDP Human Development Report 2010. This makes it a country of medium human development. The Gini coefficient of 46.9 (reference period 2000 – 2010) reflects the fact that ingrained socioeconomic inequalities pose a serious challenge to the state authorities. Likewise, there are persistent problems of social exclusion, with women and indigenous people in particular continuing to face discrimination in terms of economic opportunities, especially in hiring and salaries. The UNDP Human Development Report 2010 ranks El Salvador 89th out of 138 countries (reference year 2008) with a Gender Inequality Index value of 0.653.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	20104.9	21431.0	20661.0	21214.7
GDP growth	%	3.8	1.3	-3.1	1.4
Inflation (CPI)	%	4.6	6.7	1.1	1.2
Unemployment	%	6.4	5.9	-	-
Foreign direct investment	% of GDP	0.5	1.7	1.1	0.0
Export growth	%	7.1	6.9	-16.0	12.3
Import growth	%	8.8	3.3	-24.8	11.1
Current account balance	\$ mn.	-1216.6	-1532.2	-304.2	-488.3
Public debt	% of GDP	38.7	39.7	49.0	50.8
External debt	\$ mn.	9806.6	10601.1	10102.1	11068.7
Total debt service	\$ mn.	1088.9	1006.4	1175.3	1079.6
Cash surplus or deficit	% of GDP	0.8	0.3	-5.0	-
Tax revenue	% of GDP	14.2	14.3	12.8	-
Government consumption	% of GDP	9.3	9.2	10.6	10.9
Public expnd. on edu.	% of GDP	3.0	3.6	-	-
Public expnd. on health	% of GDP	6.2	6.0	6.4	-
R&D expenditure	% of GDP	0.09	-	-	-
Military expenditure	% of GDP	0.6	0.5	0.7	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

The rules for market competition are well established and guaranteed by the Salvadoran state, with the fundamentals of the country's competition policy laid down in its constitution. While Article 102 guarantees economic freedom and Article 110 bans monopolistic practices, Article 101 requires the state to promote economic and social development by means such as increasing productivity and the defense of consumer interests. Although some observers feared that the FMLN-led government might try to implement a form of "21st century socialism" similar to

Market-based
competition
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that seen in other Latin American countries, President Funes repeatedly denied any intentions of reversing the privatization and liberalization processes of previous governments. Accordingly, throughout 2009 and 2010, the political leadership has been consistent in promoting a free market system which combines market-based competition with increased social spending in order to promote economic growth and development while curbing poverty and socioeconomic inequalities.

The state does not intervene in processes of the market, and opportunities for all market participants are largely equal. The 1999 Investment Law grants equal treatment to foreign and domestic investors, establishes procedures to settle disputes between foreign investors and the government, and created the National Investment Office at the Ministry of Economy, whose main function is to facilitate the registration of new investments in the country.

According to reports by the U.S. Department of Commerce and U.S. Department of State, there are generally no controls on prices (apart from liquefied propane gas, public transportation rates and energy), few import restrictions and relatively low tariffs (which were further reduced with the implementation of the Dominican Republic-Central America Free Trade Agreement, CAFTA-DR, in March 2006). There are no restrictions on using or transferring profits. According to the World Bank's Doing Business Reports 2010 and 2011, the Salvadoran total tax rate (in terms of percent of profit) was among the lowest in Latin America in 2009 and 2010. El Salvador remains listed as one of the five most economically free countries in the South and Central America/Caribbean region according to the 2010 and 2011 editions of the Heritage Index of Economic Freedom, with an overall score well above the world average. The informal sector in El Salvador is comparatively small.

However, it should be noted that despite the establishment of a generally appropriate and efficient institutional framework of economic policy, domestic and international observers describe high crime rates, deficiencies in the Salvadoran judicial system and comparatively low workforce education levels as key hindrances to market-based competition in El Salvador, as they constrain business activities and deter investments.

A new Salvadoran Competition Law took effect in 2006, with the explicit aim of enhancing economic efficiency and consumer welfare. In addition to rendering anticompetitive practices such as rigged bids and the abuse of dominant market positions illegal, this law also provided for the creation of the Superintendency of Competition, which seeks to abolish monopolistic practices and achieve a more efficient and competitive economy. One of the features distinguishing the Salvadoran Competition Law from its counterparts in other Latin American countries is its set of provisions for merger control. In 2007, the Competition Law was amended to set higher maximum fines for especially harmful conduct and to

Anti-monopoly
policy

7

give new means of enforcement to the superintendency, namely the power to conduct dawn raids and the ability to create a leniency program.

International observers including the OECD and WTO have praised El Salvador's competition policy for being generally sound, and have commended the country for making considerable progress in recent years. The OECD in particular describes El Salvador as a model for other countries seeking to implement a competition policy, citing the comprehensive regulatory framework provided in the Competition Law as well as the broad political consensus on which it was built. Throughout 2009 and 2010, the Superintendency of Competition has actively investigated anti-competitive practices, strengthened relations with other Latin American competition agencies, worked to communicate its aims and activities to the general public, and sought to raise awareness of El Salvador's competition policy within the business community.

Despite these strengths, international and domestic actors contend that a few business oligarchs continue to exercise disproportionate influence over the Salvadoran economy, and that the dominant position of some companies, especially in the energy market, has hindered competition. The often slow and uncertain process of judicial review of the superintendency's decisions, alongside this body's need for greater funding, contributes to problems in combating the monopolistic practices of El Salvador's oligarchs.

Foreign trade is mostly liberalized, and there is no fundamental state intervention in free trade. Like its predecessors, the government under President Funes has made efforts to establish and deepen bilateral and multilateral free trade agreements, emphasizing the relevance of trade in goods and services as a means for achieving economic growth and development. Specific trade policy objectives of the government include the promotion of foreign investment in export-generating production areas in order to reduce the country's trade deficit, and export-market diversification intended to lower El Salvador's vulnerability to negative demand shocks.

Trade statistics provided by the WTO indicate that El Salvador conducts most of its trade with partners with which it has preferential agreements. In 2008, trade with such partners amounted to nearly 90% of total exports and approximately 66% of imports. International trade flows were severely affected by the global financial crisis, with the volume of both exports and imports of goods and services decreasing significantly in 2009 compared to 2008 (for a total decline of 16.4% (exports) and 23.3% (imports) according to IMF data). Early IMF projections showed a recovery in El Salvador's international trade statistics in 2010, with an increase in the volume of exports of goods and services by 7.2%, paired with an 8.9% increase in the volume of good and service imports. According to data

Liberalization of
foreign trade
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provided by the Economist Intelligence Unit, gross inflows of foreign direct investment to El Salvador fell by 45% in 2009 compared to 2008.

International observers commend the openness of El Salvador's trade and investment regime, and the consistency with which both current and previous governments have followed their trade liberalization strategies. El Salvador is a member of the WTO, an active participant in the Summit of the Americas process, and a signatory of free trade arrangements with (inter alia) Honduras, Taiwan, Mexico and Chile, and it forms part of the Association Agreement successfully concluded in May 2010 between the European Union and Central America. The government has actively pursued additional free trade agreements, as for instance between Central America and Peru, for which a first round of negotiations was completed in November 2010. According to the U.S. Department of Commerce, there were 16 free zones operating in El Salvador as of September 2008.

The Salvadoran banking system remains one of the most advanced and stable in the region, despite some weaknesses in the arrangements for systemic liquidity. Two of the 12 banks operating in the country are state-owned. Foreign bank presence in El Salvador is, along with Mexico, among the strongest in Latin America, with at least 95% of banking system assets under foreign ownership in 2009. Due to its strong ties to the U.S. economy, El Salvador was more severely hit by the recent global financial crisis than were other Central American countries. However, international observers such as the IMF and World Bank confirm that the Salvadoran financial system was well capitalized and liquid and withstood the crisis well, showing signs of improvement in most bank indicators in 2010. After the share of non-performing loans increased significantly in 2009, reaching values well above the Central American average, they began to level off again in 2010. Liquidity and capital ratios remain higher than their pre-crisis levels, due to some capital injections and a shift to low-risk, liquid assets. As the IMF points out, weaknesses in the arrangements for systemic liquidity include legal provisions which prevent the central bank from undertaking lender-of-last-resort functions, as well as the lack of a comprehensive policy to provide liquidity support for the financial system in situations of stress.

According to international observers, the Salvadoran banking system is sound and is in general well managed and supervised. El Salvador is officially dollarized, and has no domestic currency or monetary policy. Foreign banks are afforded national treatment under the 1999 Banking Law and amendments made in 2002. This law inter alia helped the Salvadoran banking system to achieve international standards, strengthened supervisory authorities, and provided for more transparency and security in the course of customers' and banks' operations. Foreign investors may obtain credit within the local financial market under the same conditions as local investors, with accounting systems being generally consistent with international norms. Oversight in the financial system is provided by the Superintendency of the

Banking system

9

Financial System. Interest rates are set by the market and have decreased significantly since dollarization. The organization, operation and activities of microfinance institutions are regulated by the Non-Bank Financial Intermediaries Law. According to the Law Against the Laundering of Money and Assets, financial institutions are required to report suspicious transactions to the office of the Attorney General and the Superintendency of the Financial System.

In January 2011, the Legislative Assembly approved the Law on the Regulation and Supervision of the Financial System, which had been debated by parliament since May 2009. The law aims to enhance financial sector supervision, among other provisions, by giving more regulatory power to the Central Reserve Bank of El Salvador and merging the superintendencies responsible for securities, the financial system and pensions into a single institution.

8 | Currency and Price Stability

The passing of the Monetary Integration Law in November 2000 established the U.S. dollar as legal tender in El Salvador alongside the colon, with a fixed exchange rate of 8.75 colones per U.S. dollar starting on 1 January 2001. The power of the Central Reserve Bank of El Salvador to issue new colones or coins ceased on the same date. The Monetary Integration Law also established the U.S. dollar as the unit of account for the financial system, and granted the freedom to contract in any currency. The U.S. dollar now circulates freely in El Salvador and is valid for all transactions, while the colon is used only in isolated rural areas. According to the IMF, the dollarization of El Salvador's economy – although preventing authorities from using monetary or exchange rate policy to mitigate external shocks – has played a key role in preserving macroeconomic stability. President Funes has publicly denied rumors that his government might try to de-dollarize or reintroduce the colon as the national currency.

Representatives of the IMF report low inflation rates – 0% in 2009, with a rise to only 1.0% (year-on-year) by July 2010 – and commend El Salvador's real effective exchange rate as being broadly in line with economic fundamentals. As analysts from the Economist Intelligence Unit and the Economic Commission for Latin America and the Caribbean point out, the main reason why El Salvador's inflation rates have remained low despite high international commodity prices (such as rising oil prices) and supply-side disruptions associated with adverse weather effects (specifically the crop damage caused by the impact of Tropical Storm Agatha) is the slow growth of domestic demand, which can be explained in part by the scarcity of credit available to the private sector.

Anti-inflation /
forex policy

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The Central Reserve Bank of El Salvador is an autonomous entity within El Salvador, and is not allowed to grant loans to the government.

The political leadership under President Funes has followed a consistent stability policy, based on fiscal consolidation combined with an increase in social spending. International observers such as the IMF commended the Salvadoran government for its expenditure restraint in 2009, and its plans to diversify the export sector further in order to lower El Salvador's vulnerability to negative demand shocks.

Due to its strong links to the U.S. economy, El Salvador was affected severely by the global financial crisis in 2009, contributing to a sharp increase in public sector deficit and debt. Economic activity began to recover modestly in 2010 and was expected to pick up further in 2011, not least due to increasing stability in the United States, an expected increase in trade flows, and the government's plans to encourage domestic consumption by means of targeted investments designed to improve living conditions while stimulating the private sector. According to IMF reports, El Salvador's current account deficit for 2010 was expected to rise from 1.8% of GDP in 2009 to 2.8% of GDP in 2010, as import growth outweighed the growth in exports and remittances. However, the fiscal deficit was expected to decline to 4.8% of GDP in 2010, thanks in large part to expenditure restraint and higher tax revenue following the implementation of new tax rules in January 2010 (which affect sale of alcoholic beverages and tobacco, among other issues). In March 2010, the IMF approved a 36-month, approximately \$790 million stand-by arrangement aimed at mitigating the adverse effects of the global financial crisis on El Salvador's economy and people; this succeeds the 15-month stand-by arrangement approved in January 2009.

Macrostability
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9 | Private Property

Property rights and the regulation of the acquisition of property are well defined in terms of acquisition, benefits, use and sale, but only moderately well protected. El Salvador is a signatory of most relevant international treaties on the protection of property rights (e.g., the Bern Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, the World Intellectual Property Organization (WIPO) Copyright Treaty, and the WIPO Performance and Phonograms Treaty). In December 2005, state authorities revised several laws to comply with the CAFTA-DR provisions on intellectual property rights, including the Intellectual Property Promotion and Protection Law and the Law of Trademarks and other Distinctive Signs. Among other changes, these reforms extended the copyright term from 50 years to 70 years, and made piracy punishable by a jail sentence of two to six years. There are minor restrictions on land ownership and the exploitation of underground resources. Since the Investment Law states that these latter resources belong to the state, concessions for mining are

Property rights
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compulsory. With respect to 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. Although Article 106 of the constitution allows state authorities to expropriate private property for reasons of public utility and social interest, there have been no recent cases of direct expropriation. In 2009, two North American mining companies, the Canadian Pacific Rim Mining Corporation and the U.S.-American Commerce Group, initiated legal proceedings (the former through its U.S. subsidiary) against the Salvadoran government in front of the International Center for Settlement of Investment Disputes (ICSID) under CAFTA-DR's provisions on "indirect expropriation." These lawsuits led to widespread criticism of CAFTA-DR's investment rules and the high proposed settlement sum for which the companies are suing (a combined total of at least \$177 million). They also sparked significant controversy, as the Salvadoran government denies unlawfully refusing gold mining permits in the case of Pacific Rim or any unlawful termination of mining rights in the case of the Commerce Group, but instead cited environmental and health concerns as the primary reasons for not granting the contested extraction permits.

Despite this overall liberal framework, the assurance of private property security in El Salvador remains a de facto restraint even in the presence of well-defined property rights, due to the high crime rate, including criminal acts such as robbery and theft, and the state's inability to deal with this challenge effectively. This becomes evident, inter alia, in the fact that El Salvador had one of the world's highest software piracy rates in 2009 according to a 2010 report by the Business Software Alliance. International observers continue to criticize inefficiency and judicial corruption as among the main constraints to doing business in El Salvador, as they lead to property rights enforcement that is often slow and unproductive.

Private companies are permitted, and the privatization of the Salvadoran economy has been consistent with market principles. The privatization process began with the banking sector in 1989, while other public services such as electrical energy distribution, telecommunications and pensions followed suit in the mid- and late 1990s.

During a speech at the 2010 Americas Conference in Miami, President Funes explicitly rejected the idea that his government might try to adopt a form of "21st century socialism," and described the need for El Salvador to find its own path that would not be a mere copy of either U.S.-style capitalism or Venezuelan-inspired socialism. The government protects and promotes the operation of private companies, and has made repeated promises not to reverse the privatization processes conducted by predecessor ARENA governments. At the same time, the political leadership under President Funes has taken a stand against privatization proposals which would cause particular harm to the most vulnerable parts of

Private enterprise
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society, and has explicitly sought a more equitable distribution of the benefits of privatization among the population. The official launch of the National Integrated Health Care System in September 2010, designed to expand public health services, as well as the fostering of public-private partnerships (PPP), corresponded to these aims. In January 2011, the government announced that it was about to finalize the proposal for a law that would regulate PPPs in El Salvador and thus help to promote investments.

According to the World Bank's Doing Business Reports 2010 and 2011, El Salvador remained one of the most business-friendly countries in Central America, although there had been no significant reforms aimed at easing business operations during the periods covered by the reports (2009 and 2010).

10 | Welfare Regime

In line with objectives first formally presented in its Global Anti-Crisis Plan in June 2009, the political leadership under President Funes has made significant and consistent efforts to improve El Salvador's social safety nets. At the core of the government's social policy agenda stands the proposal for a universal social protection system with provisions, inter alia, to expand the preceding government's Red Solidaria (Solidarity Network) program under the new name Comunidades Solidarias Rurales (Rural Solidarity Communities), thus helping financially weak households in rural areas; to establish a new, complementary program, the Comunidades Solidarias Urbanas (Urban Solidarity Communities), aimed specifically at helping the urban poor; and to implement a comprehensive, integrated health-care system based on a participatory and cross-sectoral approach. This latter would involve all system levels in order to guarantee universal and high-quality health coverage. The Comunidades Solidarias Rurales program entails the distribution of health care and education bonuses, and was officially launched in June 2009. The Comunidades Solidarias Urbanas program was launched soon after, in September 2009; among its aims are improvements in infrastructure, housing and public services. The national integrated health care system was officially launched in September 2010.

Further notable elements of the government's social policy program include President Funes' announcement of the abolishment of "voluntary" hospital fees in June 2009, and the launch of the Universal Basic Pension (Pensión Básica Universal) program in November 2009, beginning with biweekly payments of \$50 to senior citizens in the 32 poorest municipalities.

Amid concerns by some international observers that weak regulatory mechanisms and a lack of funds might jeopardize the government's social protection efforts, Alexander Segovia, technical secretary of the Presidency, announced in January

Social safety nets

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2011 that social spending in El Salvador that year would reach an unprecedented \$818 million, reflecting the government's sustained commitment to establish comprehensive social safety nets.

Finally migrants' remittances substitute for some holes in the welfare system, especially in areas such as education and health care.

The government under President Funes has made significant efforts to expand social, political and economic opportunities for all Salvadorans, irrespective of their background. These efforts have included a May 2010 presidential decree against discrimination on the basis of gender and sexual orientation in the public services, and the establishment of two working groups on indigenous affairs in August 2010 designed to guarantee better representation of the interests of El Salvador's indigenous communities.

So far, however, the effect of these effects in terms of providing equal opportunity to all members of society have been overall small, perhaps partially because these initiatives are rather recent. Reports of discriminatory practices against homosexuals, persons with disabilities, women and indigenous people have remained widespread. According to international observers such as the IDB and Social Watch, women rarely occupy management positions, while men's wages exceed those of women of equal age and education by an average of 11.9%. Likewise, EU EOM election monitors during the 2009 elections raised concerns over gender balance within the electoral administration and the representation of women in political life, as there was – for example – only one woman among the five magistrates and five substitutes of the Supreme Electoral Tribunal, a single woman among the original four registered presidential and vice-presidential candidates (the PDC vice-presidential candidate was the only woman registered, although both the PCN and PDC ultimately withdrew from the presidential contest), and only 36 women among the 178 registered candidates for the legislative elections. Women obtained 16 of the 84 seats in the Legislative Assembly in the 2009 legislative elections; this number later increased to 18 out of 84, following political personnel changes after the FMLN's victory in the 2009 presidential elections.

Employment opportunities in El Salvador moreover remain affected by a person's ethnic background, as indigenous people continue to experience discrimination in terms of hiring and salaries. It remains to be seen whether government programs intended to reduce school expenses and provide better equipment for students in rural schools – such as the Closing the Knowledge Gap (Cerrando la Brecha del Conocimiento) initiative's provision of free laptops – will in fact help overcome the significant urban/rural divide in terms of education opportunities.

Equal opportunity
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11 | Economic Performance

In 2009, El Salvador's economy was severely affected by the global economic slowdown caused by the global financial crisis, leading to a fall in the country's consumption, investment and trade flow levels. Economic activity began to recover modestly in 2010 and is expected to pick up further in 2011, in large part due to increasing stability in the United States and the Salvadorian government's targeted investment plans.

Output strength

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According to data by the IMF, real GDP growth in 2010 was projected to be 1%, after a decline in real GDP by 3.5% in 2009. Gross public debt increased from 41.2% of GDP in 2008 to 49.5% of GDP in 2009, and was projected to reach 51.2% of GDP in 2010. The current account deficit was expected to have risen from 1.8% of GDP in 2009 to 2.8% of GDP in 2010, as import growth outweighed that of exports and remittances. Remittances, which traditionally contribute to the income of Salvadoran households, fell from \$3.79 billion in 2008 to \$3.46 billion in 2009 before recovering again slightly to \$3.54 billion in 2010. Foreign direct investment has fallen consistently in recent years, from 3.3% of GDP in 2008 to 2.7% of GDP in 2009, and a projected 1.7% of GDP in 2010. According to reports by the Salvadoran Ministry of Economy, unemployment levels rose from 5.9% in 2008 to 7.3% in 2009; estimates by economic actors in El Salvador, compiled by the Salvadoran Central Reserve Bank, expect the unemployment rate to have decreased only marginally to 7% in 2010.

IMF data show that tax revenue decreased from \$2.89 billion in 2008 to \$2.61 billion in 2009; these values were expected to increase to a projected \$2.88 billion in 2010 and a projected \$3.20 billion in 2011, not least thanks to the implementation of new tax rules in January 2010 (which affect alcoholic beverages and tobacco, among other areas) and ongoing efforts to strengthen tax administration (for instance in the areas of auditing and monitoring large taxpayers). According to the 2011 Heritage Index of Economic Freedom, El Salvador's overall tax revenue was 13% of GDP in 2010.

Due to comparatively low levels of domestic demand, inflation rates have been low and stable despite rather high international commodity prices and supply-side disruptions, at 0% in 2009 and rising to just 1% (year-on-year) by July 2010.

In sum, although the global financial crisis took a serious toll on El Salvador's economy in 2009, there were clear signs that recovery was underway in 2010 and early 2011.

12 | Sustainability

Although international observers such as the United Nations Conference on Trade and Development (UNCTAD) have commended El Salvador's regulatory framework for the protection of the environment as being generally sound, environmental concerns were largely subordinated to growth efforts in the 1990s and 2000s. According to El Salvador's national profile from August 2010, water pollution and a high level of deforestation (with 80% of El Salvador's territory being deforested, making El Salvador the continent's second most deforested country) are among the country's most severe ecological problems.

Environmental
policy
5

Based on the explicit recognition of the damages caused by previous governments' sporadic consideration of environmental concerns, and with the active involvement of a variety of environmental organizations, the political leadership under President Funes has taken tangible steps to protect El Salvador's ecosystem. These include the announcement of a new waste management program in May 2010, which provides for the construction of several dozen recycling centers; the first declaration of an "environmental emergency" in the country's history, following the detection of high levels of lead pollution in the Sitio del Niño area in August 2010; and the government's explicit stand against further mining activities in the Cabañas department due to the high environmental and health risks involved. However, despite the government's apparent commitment to improving environmental protection, it is not yet clear how much effect these efforts will have, or whether the political leadership will efficiently enforce the new environmental regulations.

Although public spending on education and research and development has remained comparatively low, El Salvador's government has taken action aimed at expanding educational opportunities.

Education policy /
R&D
5

According to data by the Salvadoran Ministry of Economy, approximately 14% of Salvadorans 10 years of age or older were illiterate in 2009; illiteracy rates were significantly higher in rural areas (22.7%) compared to urban areas (9.2%). This discrepancy reflects prevailing inconsistencies across the country regarding institutional provisions for education, training, and research and development, as only few schools are established in rural areas. The higher level of poverty in these areas is also a chief contributor, with parents citing the lack of financial resources as the main reason why their children do not finish school. According to data provided by the UNDP Human Development Report 2010, only 19.4% of Salvadorans aged 25 or older have finished at least secondary education in 2010, which feeds into criticism by the IMF that low levels of workforce education compared to its regional peers is one of the central reasons for El Salvador's low investment rates. Compared to the urban/rural divide, gender seems to play an overall much smaller role in determining education opportunities; according to the Salvadoran Ministry

of Economy, schooling rates among men and women differ only slightly, with men receiving an average of 6.1 years of schooling and women an average of six years.

According to data presented by the La Prensa Gráfica, public spending on education has remained rather low in recent years, totaling 2.8% of GDP in 2008, 3.58% of GDP in 2009 and a projected 3.1% of GDP in 2010. El Salvador's relatively weak performance in terms of innovation, as highlighted by international observers such as the IMF and World Bank, is likely to be at least partly due to levels of expenditure on research and development, which were as low as 0.2% of GDP according to the 2010 Legatum Prosperity Index.

Throughout 2009 and 2010, the political leadership emphasized the need for improvements in the country's system of education and training; this began with education sector provisions in the government's Global Anti-Crisis Plan presented in June 2009, and was followed by late-2010 promises made by Vice-President and honorary Minister of Education Salvador Sanchez that the government would seek to increase education spending to between 4% and 5% of GDP during its tenure. In order to help financially weak families with school expenses, the political leadership has taken actions that include the expansion of a school meals program in urban public schools (which, according to the World Bank, benefited 1.3 million students as of August 2010), and beginning in January 2010, the provision of free school uniforms, shoes and school supplies as part of the implementation of the Global Anti-Crisis Plan. According to the World Bank, the government's efforts helped increase 2010 school enrollment by 10,958 students; whether the policies will have further effects on the quality and competitiveness of El Salvador's education system and research sector remains to be seen.

Transformation Management

I. Level of Difficulty

The political leadership's governance capacity was severely constrained throughout 2009 and 2010 by a variety of different factors, ranging from the consequences of the global financial crisis and the impact of a series of natural disasters to a variety of deeply ingrained social challenges, including high levels of poverty and crime.

Structural
constraints
6

El Salvador was affected more severely by the global financial crisis than were other countries in the region, due to its strong ties to the U.S. economy. Apart from sharp decreases in consumption, investment and trade flows, remittances fell from \$3.79 billion in 2008 to \$3.46 billion in 2009, before recovering again slightly to \$3.54 billion in 2010. Unemployment levels rose from 5.9% in 2008 to 7.3% in 2009 and an estimated 7% in 2010. International observers such as the IMF, the U.S. Department of Commerce and the U.S. Department of State note that both low workforce education levels in comparison to regional peers and the country's high levels of violence represent two of the primary challenges to El Salvador's economic performance, as they are likely to deter investment.

High levels of poverty, ingrained socioeconomic inequalities, the deportation of Salvadorans with criminal records from the United States and the country's geographic placement astride Central America's drug trafficking route all contribute to its vulnerability to crime. El Salvador remains one of the most dangerous countries in Latin America, with an average of 10.9 homicides per day in 2010.

Chronic child malnutrition and high dropout rates at school remain particularly widespread in the rural areas that are home to the country's poorest populations. Due to infrastructural deficiencies in these areas, rural communities were particularly vulnerable to the effects of Hurricane Ida in 2009 and Tropical Storm Agatha in 2010, as well as the floods and landslides associated with their impact. The human and financial costs of these natural disasters, the resulting crop damage, and additional governance challenges such as a widespread outbreak of Dengue fever in 2010 have further contributed to the fairly high level of difficulty.

Civil society traditions in El Salvador are not strong, but do exist. Though civil society was a relevant political actor at the beginning and end of the civil war, it lost prominence in the 1990s before starting to grow significantly again in strength throughout the 2000s. By the end of 2010, numerous civil society organizations with diverse societal or political agendas were operating in El Salvador, freely seeking to influence the political decision-making process. Widely publicized civil society activities in 2009 and 2010 included political information campaigns hosted by non-governmental organizations prior to the 2009 presidential elections, the March 2010 occupation of the University of El Salvador by youth who had not been admitted to study, and ongoing initiatives against planned mining activities in the department of Cabañas.

Civil society traditions

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Levels of social trust in El Salvador are at a medium level in regional comparison. According to LAPOP, 62% of interviewees show at least some trust in people in their community, ranking the country 10th out of 26 countries on this measure. According to Latinobarómetro survey results, 25% of interviewees believed they could trust a majority of the population in 2010, one of the highest such results in Latin America. Nevertheless, there is also a persistent atmosphere of distrust among the Salvadoran people due to the country's high levels of crime.

Regardless of the growing size of El Salvador's Protestant community, which constitutes the largest religious minority in the country, and despite reports of persistent patterns of economic discrimination against indigenous people (approximately 0.23% of the population according to the 2007 census), the salience of religious and ethnic cleavages in El Salvador is marginal, with a low risk that violent conflict will erupt along these lines.

Conflict intensity

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At the same time, Salvadoran society remains deeply divided by conditions of economic and social inequality. However, though numerous reports have described discrimination against the country's poorest populations in a variety of spheres, no political actors have made serious efforts to mobilize the poorer parts of society into a path of violent conflict. The long-term effects of President Funes' moderate policy course and his government's efforts to reduce socioeconomic inequalities through policy initiatives such as the proposal of a universal social protection system, might – if successful – serve to extenuate social and economic cleavages in the future.

II. Management Performance

14 | Steering Capability

Question
Score

Despite some observers' concerns that the country's political leadership is composed of ideologically varied members – including, for instance, Vice-President and honorary Minister of Education Salvador Sanchez, a former guerrilla commander, on the one hand, and Finance Minister Carlos Cáceres, former executive director of the Salvadoran Bank Association, on the other – there is fundamental agreement among all government representatives as to the value of constitutional democracy and a socially responsible market economy as strategic long-term aims. Reports by international organizations such as the IMF and the World Bank indicate that projects which would help further the development of El Salvador's market economy – such as the Law on the Regulation and Supervision of the Financial System, which received parliamentary approval only in January 2011, or a law to regulate public private partnerships in El Salvador, which as of January 2011 had yet to reach final draft form – have been proceeding relatively slowly. However, the government has made significant progress in the context of political and social initiatives. Many of these have been aimed at reducing socioeconomic inequalities through an increase in public social spending, through projects such as the national integrated health care system, an increase in the minimum wage of public sector employees, and the expansion of a school meals program in urban public schools (which, according to World Bank data, had benefited 1.3 million students as of August 2010). Others have sought to increase the transparency and accountability of state institutions, such as the June 2009 establishment of a presidential commission to investigate the extent of corruption among current and previous state authorities, or the advancement of a legislative decree containing the proposed Law on Access to Public Information (which received parliamentary approval in December 2010 but was returned with observations by the president to the Legislative Assembly in January 2011). Still other policy measures have focused on combating gross human rights violations, for instance with the late-2010 ratification of the Special Integral Law for a Life Free from Violence for Women (which, however, will not enter into force until January 2012). These steps reflect the political leadership's ability to set and maintain strategic priorities in order to advance the long-term aim of democratic stability and political inclusion.

Prioritization
7

The political leadership successfully implemented a variety of social programs, but has attracted occasionally severe criticism for the execution of its economic plans.

Implementation
8

International observers such as the IMF point out that structural reforms in the economic sector have been slow to progress – including, for instance, the Law on the Regulation and Supervision of the Financial System, which received parliamentary approval only in January 2011 – while some economists argue that the government’s Global Anti-Crisis Plan, presented in June 2009 to combat the adverse economic and social effects of the global financial crisis, has failed to revitalize El Salvador’s economy. On the other hand, there is broad recognition that a range of innovative social policies have been successfully implemented, including, for instance, the free provision of school uniforms and school supplies since January 2010 (despite reported delays in the distribution of these items in some schools), and the official launch of the national integrated health care system in September 2010.

In this context, international observers such as representatives from the IMF and World Bank have commended El Salvador’s government for making good use of international as well as domestic support in order to achieve its policy goals, and recognize the significant challenges faced by the political leadership in their attempts to accelerate economic growth. These challenges include a high level of difficulty associated with the severe impact of the global financial crisis on El Salvador’s economy, and the fact that the series of natural disasters in 2009 and 2010 necessitated a refocusing in the implementation of the Global Anti-Crisis Plan.

Significant innovation in policy-making and considerable changes in the basic beliefs guiding policy formulation took place in 2009 and 2010, following the peaceful transfer of power to the first FMLN-led government since the end of the civil war. These changes include an extensive list of policy initiatives aimed at achieving equality of opportunity, reducing socioeconomic inequalities, curbing office abuse within state institutions, combating gross human rights violations and deepening levels of political participation. Examples are a May 2010 presidential decree barring discrimination on the basis of gender and sexual orientation in the public services, sustained efforts at advancing the nationwide implementation of the residential voting program (Voto Residencial) by the 2014 presidential elections, and heightened attempts since November 2010 to explore the feasibility of out-of-country voting mechanisms.

In contrast, certain policy areas have seen little innovation; the area of short-term strategies aimed at containing the country’s high levels of crime and deteriorating prison conditions has been a particular problem. President Funes has conceded the “deplorable” state of the country’s prison system, with adult prisons currently more than 300% over capacity and little access to rehabilitation programs for inmates, according to an October 2010 report by the Inter-American Commission on Human Rights (IACHR). However, there has been no systematic attempt to remedy this situation. Likewise, human rights groups have raised concerns that the

government's September 2010 anti-gang law and the consistently intensifying involvement of the military in the fight against crime – two strategies which closely resemble the attempts of previous governments to contain gang violence through tougher legislation and the deployment of the armed forces – might not only prove as ineffective as previous government policies such as “Mano Dura” (Strong Hand, implemented in 2003) and “Super Mano Dura” (Super Strong Hand, implemented in 2004), but may also lead to increasingly blurred lines between the roles of the civilian police and armed forces in maintaining law and order.

15 | Resource Efficiency

El Salvador's government makes efficient use of a substantial part of its economic and financial resources. The dollarization of the economy, a solid banking system, significant progress in the national competition policy following the implementation of the Competition Law in 2006, and comparatively low taxes and tariffs contribute to the country's favorable business climate. The political leadership under President Funes has made efficient use of domestic and international support, engaging in activities ranging from cooperative ventures with Salvadoran civil society groups to international donor organizations' loan programs, to pursue its political and social policy agenda.

Efficient use of
assets

6

On the other hand, corruption within state agencies, particularly the judiciary and the National Police, continues to pose a significant obstacle to the efficient use of organizational resources. Likewise, weaknesses in the judiciary, high levels of crime and comparatively low workforce education levels are among the main contributors to an investment rate that remains low despite an otherwise favorable investment climate as compared to regional peers.

Against the background of social challenges such as persistently high levels of poverty and significant socioeconomic inequalities, the government has pursued a consistent policy course to support socioeconomically disadvantaged members of society, which in the long term is expected to lead to a more efficient use of human resources as well as help overcome the aforementioned drags on the country's investment climate. The full effect of these policies remains yet to be seen, although preliminary data from the World Bank, among others, indicates that initiatives to help financially weak families with school expenses have already yielded positive results by increasing school enrollment.

The government generally coordinates conflicting objectives effectively and acts in a coherent manner, although sometimes significant tensions have occasionally emerged between central political actors. These include intraparty disputes among

Policy
coordination

8

members of the governing FMLN, as well as interparty contention between the FMLN and ARENA.

Tensions between President Funes and other members of the FMLN arguably first became apparent in the highly publicized resignation of Minister of Agriculture and Livestock Manuel Sevilla in May 2010; Sevilla cited corruption and inefficiency in the government as primary reasons for his decision to step down. Difficulties reemerged in January 2010, in the form of arguments between the president and members of parliament following Funes' dismissal of an FMLN-driven legislative decree to abolish the basic fixed telephone charge as "populist and irresponsible."

Frictions between the FMLN and ARENA are perhaps more to be expected, given the strongly polarized party system in which neither holds an absolute majority in parliament. This was evident following the election of Ciro Cruz Zepada (PCN) as Legislative Assembly president in May 2009 thanks to the combined support of ARENA, the PCN and the PDC, under protest from the FMLN (whose sympathizers stormed the Assembly on the day of the election) and the CD. Alfredo Cristiani's statement in September 2009, citing a desire to "stop the president," also helped exacerbate this situation.

Overall, however, apart from delays in cases such as 2009's election of a new attorney general due to disagreements between FMLN and ARENA over suggested candidates, there has been no major political deadlock in recent years. This has possibly been attributable in part to the defection of several ARENA parliamentarians to establish GANA in January 2010.

Starting with his inauguration speech on 1 June 2009, President Funes has constantly emphasized the need to curb corruption, and has taken important steps to uncover corrupt practices within state institutions. Most notable among these steps was the establishment of a presidential commission in June 2009 to investigate the current extent of corruption within El Salvador's political system along with patterns of office abuse under the previous government. Similarly, representatives of both ARENA and FMLN have said that political officeholders must be held to greater accountability, following reports in December 2009 that former ARENA President Saca's office had spent \$219 million more between 2004 and 2008 than had been officially approved by the Legislative Assembly. While it is too early to assess the effects of Funes' policies, they represent commendable efforts to address persistent reports of deeply entrenched patterns of corruption within El Salvador's state institutions. However, further integrity mechanisms are either lacking, as in the case of a law governing party financing declarations, or have yet to come into effect, such as the Law on Access to Public Information. In addition, the state lacks oversight mechanisms able to address organized crime groups' penetration of public

Anti-corruption
policy

5

institutions such as the police and prosecutor's office. For example, no appropriate laws against money laundering are in place.

16 | Consensus-Building

In spite of some irregularities during the 2009 presidential elections (such as the use of out-of-date voter registries) and several corruption scandals involving political officeholders in 2009 and 2010, there is fundamental agreement among all major political actors that democracy is a long-term strategic aim. In particular, the peaceful transfer of power to the first FMLN-held presidency since the end of the civil war reflects the normative agreement among El Salvador's core political actors that democracy should be the only game in town.

Economic policy has led to some reported splits within the FMLN, but President Funes has been consistent in promoting a free-market system which aims to strike a middle ground between U.S.-style capitalism and Venezuelan-inspired socialism. He has maintained previous governments' privatization and liberalization policies, while increasing social spending in an attempt to curb poverty and socioeconomic inequalities. President Funes has explicitly denied any intention of establishing a form of "21st century socialism" in El Salvador, and instead works closely with the policy recommendations of the Inter-American Development Bank (IDB), IMF and World Bank. According to Latinobarómetro survey results, levels of popular satisfaction with privatized services have decreased steadily in recent years, from 47% in 2008 to 38% in 2009 and 29% in 2010. However, no major political party or social movement threatens the actual survival of the Salvadoran free market economy.

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

The political leadership has taken relevant steps to prevent political cleavages from escalating into conflict. Although religious or ethnic divisions neither permeate the political system in El Salvador nor pose an immediate risk of evolving into violence, the government has made notable efforts to encourage interfaith understanding and a closer interethnic dialogue. Representatives of the Catholic Church welcomed President Funes' decision to veto a July 2010 legislative decree that would have made the reading of the Bible in El Salvador's schools compulsory, after previously expressing concerns that such legislation could provoke religious tensions. Efforts to encourage interethnic cooperation include the August 2010 establishment of two working groups on indigenous affairs (the Equipo Técnico sobre Pueblos Indígenas and the Equipo Multidisciplinario sobre Pueblos Indígenas) and President Funes' formal apology to the indigenous community in

Consensus on goals
9

Anti-democratic
actors
9

Cleavage /
conflict
management
7

October 2010 for the prosecution and violent crimes they have endured throughout El Salvador's history.

However, the society remains deeply divided by economic and social inequalities, which have given rise to a polarized party system and civil society. This polarization became particularly apparent in the sometimes-defamatory electoral campaigning and clashes between various party supporters prior to the 2009 presidential elections, and in instances of highly confrontational opposition politics by the right-wing ARENA. The September 2009 statement by Alfredo Cristiani, touching on the desire to "be destructive" and "stop the president," was certainly an aspect of this.

Against this background, the political leadership has taken action to prevent socioeconomic-cleavage-based conflicts from escalating. This includes President Funes' moderate and consensus-oriented policy course as well as his government's efforts to reduce social and economic inequalities through policy programs specifically aimed at the poorest elements of the population.

While civil society organizations were rarely involved in the policy negotiations of previous governments, the political leadership under President Funes has made notable efforts to give non-governmental actors a greater role in the political decision-making process. Specifically, a variety of forums to encourage cooperation between the government and civil society groups were established throughout 2009 and 2010. These included formal consultations between government, business and labor representatives designed to improve working conditions in El Salvador; the involvement of civil society organizations in the newly formed Intersectoral Health Commission (Comisión Intersectorial de Salud, CISALUD) to discuss the El Salvador's main health problems; and the creation of working groups consisting of government representatives and leaders of indigenous communities in an effort to enhance the indigenous people's political standing.

By enabling greater participation by a wide variety of civil society actors in the political decision-making process, the government under President Funes has both recognized the growing strength of El Salvador's civil society throughout the 2000s and encouraged cooperation between non-governmental organizations with competing agendas. Likewise, media representatives commended the parliamentary approval of the legislative decree containing the Law on Access to Public Information in December 2010, not only because it was itself drafted with the assistance of the Group to Promote the Law on Transparency and Access to Public Information (Grupo Promotor de la Ley Transparencia y Acceso a la Información Pública), a civil society organization, but also because its eventual implementation would facilitate reporting on the political process.

Civil society
participation

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El Salvador's political leadership has made significant progress in bringing about processes of reconciliation during 2009 and 2010. These include the government's efforts to address and overcome past acts of injustice committed both by state authorities during the civil war, and more broadly against the country's indigenous community throughout El Salvador's history. Seeking to enhance interethnic reconciliation and cooperation, the government established two working groups on indigenous affairs in August 2010 (the Equipo Técnico sobre Pueblos Indígenas and the Equipo Multidisciplinario sobre Pueblos Indígenas). Moreover, in October 2010 President Funes became the first Salvadoran president to apologize publicly for the prosecution and violent crimes perpetrated against indigenous people throughout El Salvador's history.

Reconciliation
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As noted by representatives of the IACHR, the Funes government has also adopted a decidedly different position than that of its predecessors with respect to acts of injustice committed by the state during El Salvador's civil war. In a series of public acts designed to acknowledge and apologize for the state's involvement in past atrocities, President Funes formally apologized in January 2010 for the human rights abuses committed by state authorities during the civil war, and again in March 2010 for the 1980 murder of Archbishop Oscar Romero. This latter action followed a November 2009 concession by David Morales, El Salvador's director general of human rights of the Ministry of Foreign Affairs, in front of the IACHR, that the state had been involved in this case. The establishment of the National Commission to Search for Children Who Disappeared During the Civil War in 2010 and the reported willingness of the current government to comply with previous IACHR sentences relating to El Salvador's civil war are further examples of the political leadership's efforts to deal with historical acts of injustice.

Despite these notable gestures of reconciliation, there has been little progress in investigating and bringing those responsible for human rights violations during the civil war to justice, as President Funes' government – like its predecessors – has opposed the abolishment of the 1993 General Amnesty Law. Attempts to address past acts of injustice or to bring about a process of reconciliation in El Salvador are made more difficult by persistent patterns of corruption and inefficiency within the judiciary.

17 | International Cooperation

The Salvadoran government makes efficient use of international partnerships to realize its domestic policy agenda in economic, political and social terms. During the period under review, the political leadership actively pursued new cooperation agreements and built on existing ones as means to promote economic growth and development. New agreements include the successful conclusion in May 2010 of an association agreement between the European Union and Central America

Effective use of
support
9

(excluding Belize), with the explicit aim of fostering sustainable development, regional integration, and political and economic stability in the Central American region. Moreover, a first round of negotiations over a free trade agreement between Central America and Peru were completed in November 2010. Other free trade arrangements with Honduras, Taiwan, Mexico and Chile, among others, remain in force.

The Salvadoran government also negotiated loans with international donor organizations to advance its political and social policy agenda. These included a \$60 million loan from the IDB to help expand and upgrade El Salvador's public health services in line with the government's proposal for a national integrated health care system (officially launched in September 2010), and a \$250 million World Bank assistance package to support the government's Global Anti-Crisis Plan. Furthermore, the Salvadoran leadership made effective use of international support from organizations such as the World Food Program and the Disaster Relief Emergency Fund of the International Federation of Red Cross and Red Crescent Societies; this aid was critical in reconstruction efforts after Hurricane Ida and Tropical Storm Agatha hit El Salvador in November 2009 and May 2010.

El Salvador's engagement in economic and trade agreements such as CAFTA-DR, its commitment to political dialogue with other Central and Latin American countries through mediums such as the Central American Integration System (Sistema de la Integración Centroamericana, SICA), and its provision of humanitarian and military aid on a global scale has established the country as a credible and reliable partner in the international community. Though some observers feared that President Funes' government might seek new alliances with Latin American leaders of the populist left and try to terminate some of the partnerships established under ARENA governments, Funes has explicitly denied any intention of joining the Alternative for the Peoples of Our America (Alianza Bolivariana para los Pueblos de Nuestra América, ALBA) or leaving CAFTA-DR. Similarly, ties with the United States continue to be strong despite initial warnings by some analysts that the restoration of El Salvador's diplomatic ties with Cuba hours after President Funes' inauguration might lead to a deterioration in relations with the United States. On the contrary, President Barack Obama commended President Funes' regional and international leadership in March 2010, singling out his handling of the crisis in Honduras, thus underlining the political leadership's successful efforts at establishing new partnerships while strengthening existing ones.

Likewise, the successful conclusion of several international negotiations – leading, for example, to a cooperation agreement with Russia pertaining to areas such as investment promotion, education and disaster management in October 2010; as well as to the May 2010 association agreement between the European Union and Central

Credibility
10

America, which includes El Salvador – further confirm the high level of confidence the government has been able to attain within the international community.

El Salvador's political leadership actively and successfully builds and expands upon regional relationships. El Salvador and Honduras enjoy normal diplomatic and trade relations despite repeated disagreements over territorial issues, including an ongoing dispute over their maritime borders (both El Salvador and Honduras continue to claim the small Conejo Island in the Gulf of Fonseca). The Salvadoran government was among the first to condemn the June 2009 coup in Honduras, but throughout 2010 became one of the most active backers of Honduras's readmission into SICA and the Organization of American States (OAS), citing the public mandate gained by Honduras's post-coup President Porfirio Lobo. Following promises made during President Funes' electoral campaign, the government restored full diplomatic ties with Cuba hours after his inauguration on 1 June 2009; relations with Cuba had been severed since the communist revolution in 1959. Although state authorities have criticized the Mexican government for failing to investigate brutal attacks against scores of Central American migrants in August and December 2010, including Salvadorans, El Salvador and Mexico maintain good diplomatic ties. The Salvadoran government promotes and maintains stable economic and political relations with neighboring countries within the framework of several trade agreements such as CAFTA-DR, and of international organizations such as the Central American Parliament (PARLACEN), SICA and the Conference of Central American Armed Forces (CFAC). Through SICA, El Salvador participates in regional security initiatives directed against organized crime.

Regional
cooperation
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Strategic Outlook

Despite serious structural constraints that are beyond the political leadership's control – such as the global economic slowdown caused by the global financial crisis, and the human and economic costs associated with the impact of Hurricane Ida and Tropical Storm Agatha – President Funes' government has made significant progress in a short period of time in addressing some of El Salvador's most pressing and deeply ingrained social and political challenges. While the long-term effects of policy initiatives such as programs to help financially weak families with school expenses or the launch of the national integrated health care system remain unclear, the first FMLN-led government since the end of the civil war is clearly committed to providing balance to what had previously been a fragmentary transformation progress. Previous governments had made major achievements in progressing toward a fully consolidated free market economy, but had not pursued substantive social or political reforms able to deepen democracy.

So far, despite sometimes severe tensions between Funes and other members of the FMLN, as well as between the FMLN and ARENA, the president's moderate and consensus-oriented leadership style has given him a proven track record in realizing the government's ambitious and innovative policy agenda. Particularly notable in this context is the political leadership's effective use of both domestic and international support to help realize the government's strategic priorities, ranging from the active integration of civil society groups into policy-making processes to the efficient use of loans from international donor organizations.

The further performance of President Funes' government will largely depend on the political leadership's ability to remain consistent. Promises not to reverse earlier privatization and liberalization achievements should be kept. But this consistency must also involve efforts to reduce friction between officeholders while keeping to a coherent, clearly communicated policy course. The government ought to give greater priority to the country's poor prison conditions, in part by improving access to reeducation and training programs, and should focus on strengthening the education and research sectors. These goals could help attain economic as well as general societal benefits; comparatively low workforce education levels and persistently high crime levels have previously deterred investment in El Salvador despite an otherwise largely favorable business climate. In its fight against crime, the government also needs to seek alternatives to the combination of tough legislation and the deployment of the armed forces, as other governments have shown this strategy is likely to be largely ineffective, and may even dangerously blur the roles of the civilian police and armed forces maintaining law and order. Alternative strategies to curb high levels of crime could include a greater focus on crime prevention strategies and social rehabilitation programs, but there is also a clear need for more stringent anti-corruption measures within the National Police and the judiciary. Economic diversification will be another critical issue. Today's economy shows comparatively low investment levels, a dependence on remittances and a vulnerability to negative demand shocks;

thus, the political leadership's plans to promote investments through public-private partnerships, increase domestic productivity and diversify the export sector will be crucial to strengthening the country's free market system.

The international community ought to continue to support El Salvador's social and political policy program, while remaining patient with respect to delays in the realization of economic reforms, given that the country's economy is already among the most open in Latin America.