

# BTI 2016 | El Salvador Country Report

	scale	score	rank	trend
<b>Status Index</b>	1-10	<b>6.90</b>	# 29 of 129	
Political Transformation	1-10	7.30	# 30 of 129	➔
Economic Transformation	1-10	6.50	# 33 of 129	➔
<b>Management Index</b>	1-10	<b>6.79</b>	# 13 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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**Key Indicators**

Population	M	6.1	HDI	0.662	GDP p.c., PPP \$	8341.0
Pop. growth <sup>1</sup>	% p.a.	0.3	HDI rank of 187	115	Gini Index	43.5
Life expectancy	years	72.3	UN Education Index	0.553	Poverty <sup>3</sup>	% 11.5
Urban population	%	66.3	Gender inequality <sup>2</sup>	0.441	Aid per capita \$	28.1

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

## Executive Summary

During the review period, political and economic measures oriented toward a socially responsible, free-market democracy were slightly strengthened during the last year of the government of Mauricio Funes (2009-2014) and the first year of Salvador Sánchez Cerén (since 2014), each of whom is from the Farabundo Martí National Liberation Front (Frente Farabundo Martí para la Liberación Nacional, FMLN). One important difference between these administrations and their predecessor has been the support accorded to social policies, in particular those seeking to improve educational opportunities for children from financially weak families. This has not only improved the educational system, which was previously in a precarious situation, but has also strengthened the government's popular standing.

The election of President Sánchez Cerén in the 2014 ballotage was marked by political tensions produced by the narrow margin of victory by the FMLN over the main opposition party, the right-wing Nationalist Republican Alliance (Partido Alianza Republicana Nacionalista, ARENA). Despite negative reactions by ARENA and allegations of electoral fraud, the results announced by the Electoral Court were accepted after a clarification of the transparency of the process. Similarly, the relationship between the legislative branch and the Supreme Court has been stabilized after a serious political crisis under the Funes administration. However, the security situation, with implications for democratic rights as well as economic freedoms, has remained precarious. During the period under review, the truce between gangs accorded in 2012 came to an end in 2014. Homicide rates, which had dropped about 40% in 2012, skyrocketed again in 2014, up to an estimated rate of about 65 to 69 per 100,000 inhabitants, thereby rivaling Honduras for the region's (and the world's) highest murder rate.

The government's scope of action to improve the overall situation of the state is limited due to the lack of dynamism of the Salvadoran economy, which was severely affected by the financial crisis of 2009. Economic growth is still slow and public debt levels remain high. The tax reform and the Law on the Regulation and Supervision of the Financial System passed by the current

administration have been implemented only to a limited degree and with no significant results in terms of the country's financial situation.

President Funes' moderate and consensus-oriented leadership style during his last year in office has afforded 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 domestic and international support to help realize strategic government priorities, ranging from the active integration of civil society groups into policy-making processes to the efficient use of loans from international donor organizations. President Sánchez Cerén's first year has been marked by the continuity of all major initiatives from the previous government. International confidence in El Salvador's government increased. The main concerns are the low levels of economic dynamism and the country's significant dependence on remittances. Nevertheless, the government has made important efforts in promoting public-private partnerships, particular in the areas of infrastructure and rural development.

## 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), Carlos Mauricio Funes Cartagena (2009-2014) and Salvador Sánchez Cerén (since 2014). Apart from Duarte, who was a member of the Christian Democratic Party (Partido Demócrata Cristiano, PDC), as well as Funes and Sánchez Cerén, both of whom belong to the Farabundo Martí National Liberation Front (Frente Farabundo Martí para la Liberación Nacional, FMLN), all presidents since the end of the civil war have 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 legislative election of March 2012 saw the emergence of Gran Alianza por la Unidad Nacional (GANU) as a third political force in the country. After the first administration under the FMLN, Salvadorian society is showing signs of extreme political polarization. The presidential election of 2014 was decided between the FMLN and ARENA by a difference of approximately 6,500 votes.

The deep polarization and persistent distrust among political 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 both President Funes and Salvador Sánchez Cerén has shown itself to be 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, they might represent a new stage in El Salvador's progress toward a socially responsible free-market democracy.

The truce in March 2012 between the main gangs Mara Salvatrucha and Barrio 18, along with other smaller gangs operating in the country, resulted in a significant reduction in homicide rates. However, following the termination in 2014 of the truce, homicides increased, once again making El Salvador one of the world's most violent countries.

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

## 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. The trend of increased crime levels following the 1992 peace agreements continued through the first months of 2012. Until February 2012, there was an average of 13 homicides per day, with crime remaining highly concentrated in the metropolitan area of San Salvador. After the truce between gangs, there was a minimal reduction of the homicide rate until June 2013. According to statistics provided by the Salvadoran National Police, there were 4,308 murder victims in 2011 and 2,391 in 2013. After the end of the truce, the situation worsened rapidly, including an increase in killings of police officers (around 40 between 2014 and the first months of 2015).

Monopoly on the  
use of force

6

Scholars and policymakers have long cited as central drivers of Salvadoran crime the prevalence of gangs (maras), the impunity afforded to perpetrators of criminal acts, poverty and socioeconomic inequalities. Experts confirm that the gangs (the two Mara) are responsible for up to 30% of homicides. Gangs also control large portions of territory in which the police and other public institutions remain absent. Some groups inside gangs (clikas) use large-scale arms and perform military-like actions, such as when confronting police forces.

A number of repressive policies aimed at curtailing crime, including the Law for the Proscription of Gangs, Cliques, Groupings, Associations and Organizations of a Criminal Nature, the extensive use of the military in public security and the excessive violence of the police failed to reduce the violence caused by the war between gangs and against the state. These measures also failed to control gangs or curtail their territorial organization. The state monopoly of force has historically been threatened by different groups; over the last 20 years gangs have shown to be the main threat to stability in the country.

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 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. Although notable developments regarding the protection of civic rights for homosexuals and gender equality have taken place, changes remain formal and do not touch on the social basis of discrimination.

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 recent data show growth in the number of evangelical church members and members of other religious groups. In 2011, 46% of the population identified themselves as Roman Catholics; 33% as evangelical; 2% as Jehovah's Witnesses and 1% as traditional Protestants.

No interference of  
religious dogmas  
10

Article 82 of the constitution prohibits persons who hold religious offices from affiliating with political parties and 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. However, Catholic and other religions oppose any regulations concerning abortion, homosexual rights and educational contraceptives programs.

In spite of the participation of Father Fabio Colindres, the military chaplain responsible for liaising between the Catholic Church and the military, in the truce negotiations, the process was not officially recognized by the high hierarchy of the Catholic Church. However, the Initiative for Peace involving all major churches in the country is an active organization supporting civil and human rights. Even without addressing structural causes of violence, the Catholic Church has a long tradition of performing social work in the country. For a long time this has been the basis for the emergence of a number of civil society organizations that work to improve crime prevention, the penitentiary system and rehabilitation. Interestingly, in terms of the efficiency and legitimacy of prevention and rehabilitation work with (former) gang members, the evangelical churches have already overtaken the Catholic Church.

Especially in the security sector (law, police, prisons), the state's infrastructure still performs poorly. In addition, severe deficits regarding other administrative structures remain, particularly in poor areas. This situation worsened during the last two years due to a reduction of public expenditure on infrastructure and the effects of the country's macroeconomic crisis. Current public spending has been made with international funding, primarily from the Millennium Fund I and II and the Association Plan, both in partnership with the government of the United States. In addition, funding from Alba Petróleos has helped to improve some basic services. These programs are oriented toward strengthening public-private links in the areas of public infrastructure. These resources have focused on overcoming structural deficits in state infrastructure. However, the Salvadoran economy's low levels of dynamism have resulted in an increase in public debt, reaching 55% of GDP in 2012 and 62% in 2013. This has led to deficits in basic public service coverage as well as poor service quality.

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. In practice, elections are free and fair and only slightly impaired by remaining flaws such as non-transparent party financing.

Free and fair  
elections  
9

Presidential elections were held in 2014. In first electoral ballot, in February 2014, the FMLN obtained 48% of the votes and ARENA 38%. In the second ballot, ARENA increased its votes to 49% compared to 50% for the FMLN, representing a difference of 6,364 votes. This result generated post-electoral tensions: the ARENA party claimed fraud had been committed and called for mass mobilization against the Electoral Court and a rejection of the results. However, ARENA was not able to prove the fraud and all national and international observers (including the UN and the OAS) declared the process free and transparent; after a short period of political tension, the ARENA party accepted the results.

Nevertheless, the leadership crisis of both main political parties affected electoral participation. Different estimates show an abstention rate of 46%, one of the highest percentages during the last decade. The Organization of American States (OAS) reported some technical problems; for instance, some polls opened late, and problems with voting stands in some cases failed to guarantee the confidentiality of voting. A number of potential issues remain, such as ensuring an end to campaigning during the election itself, the need for proper regulation guaranteeing full access by women to public elections and a need for improved transparency within political party financing. Out-of-country voting was approved in January 2013, after more than ten years of discussion by the Legislative Assembly.

Since the successful reform of the military and the police forces in the 1990s took place, there have been no significant veto powers or political enclaves constraining elected rulers in their effective power to govern. However, a business oligarchy and foreign-based multinational enterprises continue to exercise political influence, mainly because political competition in El Salvador is privately financed and the leftist government largely stays clear of these entities. Private entrepreneurs influence both main parties and governments are constrained by the El Salvador's significant economic dependence on foreign countries, especially the United States. Nevertheless, these factors do not represent a substantial threat to democratic stability in the country.

Effective power to govern  
9

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 disturbance by the state authorities. There are currently no limitations on or persecution of any social group or organization in the country. Unions and other civil and social organizations have demonstrated in favor of wage increases without facing police repression or intimidation. The main concern for human rights organizations is the excessive and violent police repression of citizens alleged to be related to the gangs. During the last two years, the vulnerability of civil society organizations focusing on rehabilitation and the prevention of violence has increased due to the attorney general's radical application of the anti-gang law, which allows police and the attorney general's office to arrest any person for illegal association. This development has negatively affected humanitarian work and the general sense of freedom of organization.

Association / assembly rights  
8

The freedoms of speech and of the press are guaranteed under the constitution and are generally respected in practice. The realm of the media is rather pluralistic and is dominated by private operators, though ownership is confined to a small group of powerful businesspeople. There were no instances of censorship by the state authorities during the period under review, and the media freely and routinely criticizes the government. International media can operate freely in El Salvador. Access to the Internet is not restricted.

Freedom of expression  
8

El Salvador remains one of the best-performing Central American countries in terms of media freedom. In the 2015 Press Freedom Index by Reporters Without Borders, El Salvador was ranked 45th out of 180 countries, a drop from 2014 when it was ranked 38th. This deterioration of press freedom was mostly due the heightened level of insecurity.

After the crises produced by the media's role in claiming transparency regarding the gang truce, President Sánchez Cerén has reduced tensions between the government and media.



### 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 branch and attempts by the executive branch to influence court decisions. Inefficiency, corruption and insufficient funds undermine the strength of the judiciary branch, and frequently lead to a lack of appropriate legal consequences for people who belong to economically or politically influential networks. These networks have become stronger over time due to the political parties' securing of key positions in the judiciary branch. The executive and legislative branches are both de jure and de facto institutionally differentiated. However, the legislative branch suffers from inefficiency, a lack of funds and the country's history of clientelism. Yet, compared to Guatemala and Honduras – the other two countries in the northern triangle – the Salvadoran judiciary is relatively strong.

Separation of powers

7

The Funes government overcame a constitutional crisis that had pitted the Legislative Assembly and the president against the Supreme Court over the issue of judicial appointments. Although this crisis increased political instability, it was overcome through the use of democratic procedures. The separation of powers was never threatened by this crisis.

During the period under review, the main source of tensions between the government and the judiciary has been the attorney general's office, which threatens and intimidates public officials for illegal associations in order to avoid public involvement in violence reduction efforts related to the truce between gangs. This has limited the political initiatives of various ministers and other executive institutions.

The judiciary's independence is constitutionally recognized, but persistent dysfunctions impair its impartiality in practice. Serious problems remain in terms of reaching the entire country and of 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, and the failure to remove underqualified and corrupt judges despite hundreds of complaints from private citizens continue to undermine the public's respect for the justice system.

Independent judiciary

6

The judiciary's independence has been threatened by attempts on the part of the executive and the legislative branches to manipulate the election of Supreme Court members and interfere with its decision-making mechanisms, as well as episodes in which rulings have been ignored. In 2013, however, the Constitutional Court ordered the removal of the president of the Supreme Court due to his FMLN membership, claiming that this violates independence of the judiciary.

Various attempts by former President Funes to control the Supreme Court were largely blocked by the Constitutional Court. President Funes attempted to manipulate the Supreme Court with the support of the legislature. This situation has changed since the election of a new legislature, which reduced Funes influence on judiciary independence. The 2015 municipal and legislative elections will increase political struggles surrounding the upcoming election of the Supreme Court and the attorney general. These elections tend to reveal the fragile independence of the judiciary.

Although El Salvador has low levels of corruption in comparison with other Latin American countries, numerous reports have cited persistent patterns of both petty and grand corruption – often linked to organized drug trade – within state agencies, in particular within the judiciary branch and the National Police. The country lacks the institutional capacities to implement efficient internal controls or to prosecute corrupt public officials. The Prosecution Office has shown during the period under report the strong power to manipulate investigations, starting with the fact that the Attorney General has been subject of serious accusations of protecting prominent private sector personalities involved in corruption. At the same time, the Attorney General is accused of being involved in the case of corruption of former President Flores.

Prosecution of  
office abuse  
6

The Prosecution Office has limited political independence, as it is a key institution for manipulating and protecting private and political interests. In December 2014, El Faro published an article claiming that the attorney general favored Enrique Rais, a prominent entrepreneur who has various lawsuits against other entrepreneurs. The online newspaper published the number of private flights made by the attorney general during the investigations.

Corruption investigations are highly politicized and used by authorities such as the attorney general for narrow political interests.

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 a stigmatization of youth as the main security threat, remained widespread. Due to inefficiency and corruption within the judiciary, civil rights violations have been dealt with inadequately or not at all. Problems with access to justice and due process constitute one of the most important human rights violations in the country. Consequently, many victims believe their cases unlikely to be prosecuted, and rarely sue their perpetrators. Due to the paucity of criminal investigations, there is little information about the actual perpetrators of civil rights violations.

Civil rights  
5

The main source of abuses and human rights violations are the police and the actions of the attorney general, especially in applying the anti-gang law under which masses

of youths are arrested daily without any clear charges. These measures have also impacted relatives of young people accused of taking part in illegal associations. During repressive nighttime actions, the police have the prerogative to shoot people under the mere suspicion of being gang members. Accusations of human rights violations have no impact due to fear of the attorney general and because the rehabilitation of gang members and their relatives is not a priority of public opinion. Accusations against police officers for extrajudicial executions received no support from the attorney general.

#### 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 the efficacy of their performance. Attempts by President Funes to disrupt democratic procedures regarding the election of members of the Supreme Court and the Prosecution Office reveal the fragility of institutions. Political parties sought to expand their political influence over judicial decision-making and other key institutions such as the Corte de Cuentas. This generated a political crisis that had international consequences for the country, especially with regard to relations with the United States and other Central American governments. The Constitutional Court was at the center of the crisis, and fought to protect democratic and constitutional procedures. This crisis showed the vulnerability of democratic institutions when confronted with political parties' interests. Democratic procedures have not been fully institutionalized. Power struggles in the legislative branch determine the allocation of resources to other institutions, including the judiciary. In addition, the appointment of key public officials depends upon political negotiations inside the legislature. This is also true of the allocation of resources for municipalities. Inefficiencies of the Electoral Court may affect democratic rule during the upcoming municipal and legislative elections due to the lack of technical capabilities for implementing a new election system.

All relevant actors formally accept democratic institutions and procedures. However, several factors impair the legitimacy of democratic institutions. Political parties have strong veto power over decisions by other branches, which is regularly abused for electoral reasons. This had particularly negative consequences for the Prosecution Office. This office was already delegitimized due to its criminal investigation incapacities. General Prosecutor Luís Martínez has been accused of abuse of power, including the political persecution of the mediator of the truce, Raúl Mijango, and of several members of the group supporting the truce between gangs. In addition, civil organizations denounced a lack of efficiency in the institution due to the general prosecutor's political preferences in selecting which cases would be investigated and favoring private-sector interests.

Performance of  
democratic  
institutions  
6

Commitment to  
democratic  
institutions  
9

The lack of transparency surrounding the truce between gangs demonstrated security institutions' low levels of legitimacy regarding security policies. The use of the Catholic Church to legitimize the negotiation process, as well as the secrecy of the process overall, reflected the low levels of acceptance and confidence accorded to security institutions by other political actors.

## 5 | Political and Social Integration

Although the two main political parties continue to hold the majority of legislative seats and municipalities, El Salvador's party system is showing slight tendencies toward diversification. The previously dominant two-party system in El Salvador changed after the municipal and legislative elections of March 2012, in which GANA became a third political force in the country due to the partial erosion of the ARENA party. But there is no tri-polar party system in El Salvador. In parliament, ARENA (33) and FMLN (31) held the vast majority of the 84 seats, with GANA (11) and the National Coalition (Concertación Nacional, 7) with the third and fourth amount of seats. The 2015 parliamentary elections – held after the end of the review period on March 1 – confirmed the distribution of seats almost exactly, with 32 seats for ARENA, 31 for FMLN, 11 for GANA and 4 for the National Coalition. At the presidential level, the two main political parties still hold the majority of votes. However, both the FMLN and ARENA had significant problems in identifying strong leaders for the presidential election in 2014.

Overall, the Salvadoran political party system remains one of the most stable in Central America. The emergence of a new political force did not contribute to higher fragmentation and voter volatility has been marginal, with the exception of the 2012 emergence of GANA in each case. Given the parties' legacies, polarization on the left-right scale is somewhat more pronounced than in neighboring Central American countries, but is not comparable to divides such as those in Ecuador and Venezuela.

Numerous interest groups and associations with diverse societal agendas operate in El Salvador, and generally coexist peacefully despite competing programs. Salvadoran civil society has been growing significantly in strength and has become increasingly close knit in recent years. Groups deal with a wide range of topics including political accountability, environmental campaigns, drug consumption prevention, violence and crime prevention. Violence- and crime-prevention organizations work with state institutions, and are currently implementing programs aimed at strengthening the recent truce between gangs. There is a lack of civil society engagement for crime and violence prevention at the community level. The existence of a large network of Hometown Associations made up by migrants in the United States is also important. The economic importance of remittances in the Salvadoran

Party system  
7

Interest groups  
7

economy gives these associations political prerogatives enabling them to mediate local interests with state authorities.

Broader community organizations remain weak, as do unions and other labor organizations. However, business associations such as the National Association of Private Enterprise (ANEP) have a high level of political influence. This association has traditionally enjoyed veto power over public decisions. The Funes and Sánchez Cerén governments have not been exceptions in this regard, since much economic and financial policy (including a tax reform) has been negotiated in advance with business associations so as not to affect the economic status quo.

In general, democratic norms have remained strong in El Salvador during the period under review, and there have been no political protests calling the constitutional framework into question. According to the LAPOP 2012 and 2014 surveys, support for democracy remains strong in El Salvador; in 2014, about 76% cited democracy as the best political regime, compared to about 13% who preferred an authoritarian government (2012: 72% and 17%, respectively). According to LAPOP 2014, the level of support for the political system is relatively high (55.3%) in comparison to other countries, which is similar to the level of support in 2012 (56.7%). Of the 25 countries included in the survey, El Salvador ranks below Costa Rica, Argentina, Uruguay, Ecuador, Canada and Nicaragua. However, the survey also found that levels of tolerance for extending the vote to critics of the regime in El Salvador are among Latin America's lowest, exceeded only by Guatemala, Panama, Bolivia and Ecuador.

According to the most recent Latinobarómetro survey in 2013, support for democracy was at a medium level among the 18 Latin American countries examined: while 49% of interviewees agreed that democracy was preferable to any other form of government, 18% would prefer an authoritarian government and 22% were indifferent.

The network of autonomous, self-organized groups in El Salvador is fragile and has become increasingly disrupted in recent years. Numerous civic associations with diverse agendas operate in the country despite continued hardships created by state authorities, including excessive formalities that delay applications for legal standing. Religion-based organizations in El Salvador conduct important social work, particularly in the area of preventing violence and crime. These organizations have a long tradition of social work with youth in marginalized areas. Social organizations are perceived to be and in fact often are a substitute for effective state institutions.

Financial crises, crime and insecurity have undermined interpersonal trust. Nevertheless, according to data from a 2012 LAPOP survey, between 70% and 85% consider their neighbors to be confident and willing to collaborate and have good relations among each other. According to Inter-American Dialogue, more than 200 Hometown Associations of Salvadoran migrants are in existence, most of these operating in the United States.

Approval of  
democracy

7

Social capital

6

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Question  
Score

Socioeconomic  
barriers  
4

El Salvador's economy is the third largest in Central America. 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. Yet, the poverty rate, the Gini coefficient and the Human Development Index (HDI) are the best in Central America with the exception of Costa Rica. In 2011, El Salvador ranked 105th out of 187 countries on the HDI, with an HDI value of 0.674. In 2013 the HDI value was 0.662, ranking El Salvador 115th out of 187 countries. This makes it a country of medium human development.

According to data provided by the World Bank, the poverty rate in 2012 was 34.5%, a figure that decreased to 28.9% in 2013. The reduction in poverty is considered an effect of the increase in public spending on social policies during the last four years. This has also contributed to El Salvador's Gini-Coefficient decline from 52.9 in 2000 to 41.8 in 2012. However, inequalities prevail in education outcomes: average years of schooling are 9.2 years in urban areas but 5.6 years in rural areas. Significant differences persist across the country concerning school enrollment and labor force participation. For example, the labor force participation rate in comparatively poor areas is 27%, as compared to 67% in wealthier areas. According to the Economic Commission for Latin America (ECLAC), the overall unemployment rate slightly diminished from 6.2% in 2012 to 5.6% in 2013. However, this data does not take underemployment into consideration.

Remittances constitute the main source of economic resources in the country and contribute to the income of Salvadoran households and play an important role in reducing poverty and socioeconomic hardships. Data provided by the Central Reserve Bank of El Salvador indicate that remittances had an increase of 6.7% during 2014 and represented 16.4% of GDP.

Ingrained socioeconomic inequalities pose a serious challenge to state authorities. Likewise, there are persistent problems of social exclusion, with large groups of the population facing discrimination in terms of economic opportunities, especially in terms of hiring and salaries.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	17093.8	21418.3	24259.1	<b>25220.0</b>
GDP growth	%	3.6	1.4	1.7	<b>2.0</b>
Inflation (CPI)	%	4.7	0.9	0.8	<b>1.1</b>
Unemployment	%	7.2	7.0	6.3	-
Foreign direct investment	% of GDP	3.0	-0.5	1.0	<b>1.9</b>
Export growth	%	0.9	11.6	4.6	-
Import growth	%	4.3	10.4	4.5	-
Current account balance	\$ M	-621.6	-532.8	-1574.4	<b>-1199.5</b>
Public debt	% of GDP	38.5	49.7	55.3	<b>56.8</b>
External debt	\$ M	9316.7	11059.1	13371.6	-
Total debt service	\$ M	852.1	1082.4	1109.6	-
Cash surplus or deficit	% of GDP	-4.4	-2.7	-	-
Tax revenue	% of GDP	12.5	13.6	-	-
Government consumption	% of GDP	9.6	10.7	12.0	-
Public expnd. on education	% of GDP	2.7	3.5	-	-
Public expnd. on health	% of GDP	3.8	4.3	4.6	-
R&D expenditure	% of GDP	-	0.07	-	-
Military expenditure	% of GDP	1.0	1.1	1.1	<b>1.0</b>

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

## 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 defending consumer interests.

Mauricio Funes' administration has been consistent in promoting a free-market system that combines market-based competition with increased social spending,

Market-based  
competition

8

seeking to promote economic growth and development while curbing poverty and socioeconomic inequalities. This policy has been continued by President Salvador Sánchez Cerén during his first year of government. The Fomilenio I and Fomilenio II, two programs financed by the United States and implemented by El Salvador's government, sought to promote private-sector investment in order to strengthen the country's economy and markets.

The state does not intervene in market processes. 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). There are no restrictions on using or transferring profits. However, the informal economy is considered as large, with about 60% of the labor force. The informal sector in El Salvador is an important part of the local economy. Due to the size of the informal sector, there have been repeated attempts to regulate and tax it. In December 2011, a tax reform was passed that, among other aspects, sought to improve taxation of the informal sector.

El Salvador is listed as a moderately free country in the 2014 Heritage Index of Economic Freedom, with an overall score well above the world average. However, despite the establishment of a generally appropriate and efficient institutional economic policy framework, domestic and international observers identify high crime rates, deficiencies in the Salvadoran judicial system and comparatively low workforce education levels as key hindrances to market-based competition, as they constrain business activities and deter investments. The wide acceptance of the huge weight of remittances in the economy of El Salvador means less poverty in the short run; in the long run, however, there is no real attempt to empower local labor or the local production of investment goods.

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 illegal market positions, this law also provided for the creation of the Superintendence of Competition, which seeks to abolish monopolistic practices and render the economy more efficient and competitive. 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 give new means of enforcement to the Superintendence, namely the power to conduct dawn raids and the ability to create a leniency program.

Anti-monopoly  
policy

7



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 the period under review, the Superintendence of Competition actively investigated anticompetitive practices even in the context of public decisions, 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. One major case has been the investigation of five major telecommunications operators, including Spain's Telefonica and Caribbean leader Digicel, after receiving complaints from a competitor that the five are using their clout to prevent competition. The Global Competitiveness Report 2014-15 ranks El Salvador 30th out of 144 countries concerning the effectiveness of anti-monopoly policy.

Foreign trade is mostly liberalized, and there is no fundamental state intervention in free trade. The average tariff rate is 2.4%. During the period under review, both the Funes and Sánchez Cerén governments made efforts to establish and deepen bilateral and multilateral free trade agreements, emphasizing the relevance of trade in goods and services as a means of achieving economic growth and development. Specific trade policy objectives of the government included the promotion of foreign investment in export-generating production areas in order to reduce the country's trade deficit, as well as 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. This was extended with the approval of the association agreement between the European Union and Central America, which was negotiated between 2007 and 2010.

El Salvador's export earnings rose to \$5.4 billion in 2013, which represents an increase of 2.8% with respect to 2012. Imports totaled \$10.5 billion in 2013, up from \$10.1 billion in 2011, according to the central bank. Exports from the maquila (offshore assembly for re-export) sector represented nearly 21.1% of export value in 2013, totaling \$1.2 billion (up from \$1.1 billion in 2012). Tariffs are relatively low, and were reduced further with the implementation of CAFTA-DR. The annual growth rate in goods and services exports fell to -7.5% in 2012 but recovered to 4.6% in 2013. The annual growth rate in goods and services imports decreased slightly from 10.9% in 2011 to 8.8% in 2012. FDI decreased from 1.88% of the GDP in 2012 to 0.81% in 2013.

Liberalization of  
foreign trade  
10

International observers commend the openness of El Salvador's trade and investment regime, as well as 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 Honduras, Taiwan, Mexico and Chile, among others. The government has actively pursued additional free trade agreements, as for instance between Central America and Peru.

The Salvadoran banking system remains one of the most advanced and stable in the region, despite some weaknesses in the arrangements governing systemic liquidity. According to a January 2015 IMF report, banking indicators are sound due to prudent supervision and regulation. 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. In comparison with other Central American countries, El Salvador's economy has had a slow recovery from the effects of the global financial crisis. However, liquidity and capital ratios remain comparatively high in the country's banking system. Banking problems are related to an overall lack of economic dynamism rather than banking system structure. The bank capital-to-assets ratio has constantly risen during the past decade, reaching a satisfactory rate of 14.3% in 2013. Non-performing loans decreased to 2.5% in 2013 after having reached a peak in 2010 with 3.9%.

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 Superintendence of the 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 Superintendence of the Financial System.

Banking system  
9

## 8 | Currency and Price Stability

The passage 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 colon per U.S. dollar starting on 1 January 2001. The power of the Central Reserve Bank of El Salvador to issue new colon 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 and is valid for all transactions throughout the country. 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. The Central Reserve Bank of El Salvador is an autonomous entity within El Salvador, and is not allowed to grant loans to the government.

Anti-inflation /  
forex policy

9

The fiscal reform and the increase in social spending implemented under the Funes government have helped stabilize the Salvadoran economy. These efforts are being continued by President Sánchez Cerén. Nonetheless, the country's economy grew by just 1.7% in 2012 and 1.9% in 2013, the lowest levels in the Central American region. However, El Salvador was expected to have a 2.1% growth in 2014. According to the IMF, the effects of the global crisis are still being felt by the Salvadoran economy. Expenditure pressures resulted in a fiscal deficit and a rising public debt. El Salvador's tax revenue represented only 15.4% of GDP in 2013, as it continues to lag behind regional peers in this regard. The overall fiscal deficit is a problem, oscillating around 4% since 2008. Public sector debt has also constantly risen, reaching about 60% in 2014. The current account deficit has steadily increased since 2010 from -2.7% to 6.5% in 2013 (and an estimated 5.5% in 2014). In sum, economic stagnation in El Salvador continues although the economic institutional framework of the country has been strengthened.

Macrostability

7

## 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 provisions of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) provisions on intellectual property rights, including the Intellectual Property Promotion and Protection Law and

Property rights

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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 compulsory. With respect to land ownership, no single natural or legal person, either Salvadoran or foreign, may own more than 245 hectares. Rural land cannot be acquired by foreigners from countries in which 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.

El Salvador saw no gain in its International Property Rights Index (IPRI) rating in 2014. Modest losses in the areas of judicial independence, rule of law, and control of corruption forced a 0.1 decline on the overall legal and political environment measure. El Salvador still has one of the highest piracy rates in Latin America. According to the Business Software Alliance's Global Software Survey 2014, El Salvador's piracy rate has remained at about 80% since 2007, meaning that the use of illegal software is widespread in homes, education centers, non-governmental organizations and businesses. The government has implemented frequent security operations aimed at dismantling centers involved in producing and selling pirated goods. Piracy, especially of software, music and movies, is part of the extended informal economy in the country. This represents a challenge for a Salvadoran government facing considerable international pressure on the issue.

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. Nevertheless, some deficiencies, such as hurdles for starting a business, have remained, resulting in a rank of only 109 out of 189 countries in the Doing Business 2015 report.

The Funes government and the successor President Sánchez Cerén have guaranteed and strengthened private business in El Salvador. 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 Funes administration has taken a stand against privatization proposals that would cause particular harm to the most vulnerable parts of society, and has explicitly sought a more equitable distribution of the benefits of privatization among the population.

Private enterprise  
9

In 2013, the Public-Private Partnership Law (*Ley de Asocios Público-Privados*) was passed with the aim of strengthening public-private investments in the areas of infrastructure, health, education and public security. The law has a particular emphasis on transparency, and calls for the creation of the Office for the Promotion of Foreign Investments to oversee public-private projects. However, the law has been not implemented due to a parliamentary blocking by ARENA. The United States Embassy pressures for the implementation of the law by conditioning specific funding of the Fomilenio II.

In 2011, President Funes officially announced that the La Union port would be opened to private-sector concession, providing a significant incentive for national and international investors. During the electoral campaign of 2014, the activation of the Union Port was one of the main offers made by both political parties.

## 10 | Welfare Regime

In line with objectives presented in its Global Anti-Crisis Plan in June 2009, the Funes administration has made significant and consistent efforts to improve El Salvador's social safety nets. Yet though public investment in social policies has grown under Funes, public services' structural shortcomings have proved difficult to overcome.

Social safety nets  
6

Sánchez Cerén has continued these programs during his first year in office. In the national budget for 2015, the main areas concentrating public resources are health, education and security. The government considers social programs in the area of education to be among its biggest successes. One such program provides uniforms, shoes and school materials to poor families. Others, such as School Food and Health, have benefited approximately 500,000 students in seven departments of the country. Budgetary allocations devoted to health and education have both been increased. Education expenditure increased from 2.8% of GDP in 2008 to 3.5% in the 2013 budget. Public health expenditure increased from 3.7% of GDP in 2008 to 4.6% in 2013.

Health programs have shown limited results primarily because of their dependence on international financing. Nevertheless, the creation of community health teams has increased the access to health services, especially in rural areas. According to the World Bank, the maternal mortality ratio decreased from 71 deaths per 100,000 live births in 2010 to 69 in 2013. Neonatal mortality decreased from 12.2 deaths per 1,000 live births in 2000 to 6.3 in 2011 and remained at the same rate until 2013. Also, infant mortality under five years decreased from 33.9 deaths per 1,000 live births in 2000 to 15.2 in 2011 to 14 in 2013.

According to Social Watch, educational and health social programs have improved lives among the poorest sectors of the Salvadoran population. However, the current

programs are too expensive for a state with limited financial resources, rendering them ultimately unsustainable. Structural socioeconomic changes are needed in order to mitigate the effects of a lack of social services.

Finally, migrants' remittances serve as a substitute for some lacunae in the welfare system, especially in areas such as education and health care. A variety of initiatives are aimed at orienting remittances toward social and economic development. However, these initiatives cannot substitute for adequate state programs, in part because of the volatility of remittance flow, and in part because remittances alone cannot effectively address structural social and economic problems.

The pension system has both a public and (since 1998) a private pillar, but reaches only about one-third of the workforce, as two-thirds are working in the informal sector. Although about 2.7 million people are enrolled in the private pension scheme, only about 650,000 are active contributors.

The Funes and Salvador Sánchez Cerén governments have made significant efforts to expand social, political and economic opportunities for all Salvadorans, regardless of background. These efforts have included a presidential decree issued in May 2010 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 intended to improve representation of the interests of El Salvador's indigenous communities. On 17 March 2011, the Legislative Assembly unanimously approved the Law of Equality, Fairness, and the Elimination of Discrimination Against Women, a set of regulations that improves the judicial framework for the protection of women's rights. This was strongly supported by Salvadoran women's organizations, as well as U.N. Women's Fund for Gender Equality.

To date, however, the effect of these measures in terms of ensuring equal opportunity to all members of society has been relatively small overall, perhaps partially because these initiatives are of rather recent vintage. Reports of discriminatory practices against homosexuals, persons with disabilities, women and indigenous people have remained widespread. According to UNPD, the wage gap between men and woman of equal age and education in El Salvador is 14%. According to the same source, five out of every 10 girls drop out of school to help at home, and 61.3% of the illiterate population is female. Women represent 76.8% of the inactive labor force; among this group, 42.8% are categorized as engaged in domestic work. The data on political participation are similarly discouraging: Women hold just 29 of 262 mayoral seats countrywide, and there are only 18 women among the Legislative Assembly's 84 members.

El Salvador was ranked 94th out of 135 countries worldwide in the Global Gender Gap Report 2012 and improved its position to 84 out of 142 countries in 2014. With respect to economic participation and opportunity gaps, the country has fallen to

Equal opportunity  
5

112th place; however, it ranks somewhat higher in terms of educational attainment (77th place) and political empowerment (66th place). The same report cited the overall gender ratio among legislators, senior officials and managers as 25 females to 75 males, placing the country 73rd worldwide. One issue generating opportunity inequality in the country is the stigmatization of specific social groups, neighborhoods and communities for being linked with gangs. Whether a person is a gang member or not, the simple fact of living in those areas is enough justification for being excluded from the job market. This situation has a stronger negative effect on women who have lost members of their families and are responsible for generating income.

## 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 declines in the country's consumption, investment and trade flow levels. Economic activity began to recover modestly in 2010 and has grown only slowly during 2012 (1.9%) and 2013 (1.7%), which shows that the country still has problems in terms of economic growth. Gross public debt increased from 54.1% of GDP in 2010 to 57.3% in 2012 and 57.8% in 2013.

The economy's slow recovery in 2010 was driven by improved export demand and remittance figures. Remittances accounted for 16% of GDP in 2011, and in 2013, the country received a total of \$3.969 billion in remittances, which is 1.5% more than in 2012. It is estimated that remittances are received by about a third of all households.

Foreign direct investment showed a significant decrease in 2013 (\$137 million) compared to 2012 and 2011 (\$484 million and \$420 million, respectively). According to reports by the Salvadoran Ministry of Economy, unemployment levels decreased only marginally from 7.2% in 2010 to 7% in 2011, reaching 5.9% in 2013. The IMF observes that though the unemployment rate is relatively low, it masks the extensive underemployment (28% of urban employees either work part-time or make less than the minimum wage) and the large informal economy (about 60% of the labor force).

The World Bank and the IMF estimated that tax revenue increased from 12.8% of GDP in 2009 and 13.6% in 2010 to 14.4% in 2012 and 15.4% in 2013. 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. During the past two years, inflation remained at around 1%, but peaked at 2% in August 2014 due to a drought-related increase in food prices, which have now subsided.

Output strength  
6

## 12 | Sustainability

Environmental concerns were largely subordinated to growth efforts in the 1990s and 2000s. With the continent's highest population density, 80% of El Salvador's territory has been deforested, making it the continent's second-most deforested country. The country is also highly vulnerable to natural disasters, but governments have paid insufficient attention to the potential for disasters.

Environmental  
policy  
5

Social Watch called for the enactment and implementation of a number of environmental laws, many of which had been debated at length in recent years. To some extent, this process is now underway. The government has made explicit recognition of the damage caused by previous administrations' sporadic consideration of environmental issues, and with the active involvement of a variety of environmental organizations has taken tangible steps to protect El Salvador's ecosystem.

In May 2012, for example, the cabinet adopted the 2012 National Environmental Policy, which aims to "revert environmental degradation and reduce vulnerability to climate change." The policy is based on six broad courses of action: the inclusive restoration and conservation of ecosystems; the incorporation of the environmental issue into land management; the implementation of water resources management programs; implementation of climate change adaptation and risk reduction measures; the need to act responsibly and engage in environmental compliance measures; and the implementation of a comprehensive sanitation infrastructure.

No major changes have occurred during the period under review regarding the National Environmental Policy, since it still lacks a strategic plan and public funding to implement the necessary measures. The main advances include an update of environmental national regulations and the promotion of international agreements signed by the state. However, many of these international agreements are not yet ratified. The approval of the mining law is still pending. The decree signed by former President Funes that prohibits mining needs ratification by the new president. There is an increase in approved urbanistic projects that lack proper studies of their environmental impact. The ministry of environment has support initiatives to face the problem of chemical waste, especially in zones of intensive agro-industry. Finally, there is a pilot project in Suchitoto, Cuscatlan, to improve management of water resources promoted by civil society organizations, international donors and local municipalities.



Although overall levels of public spending on education and R&D have remained comparatively low, El Salvador's government has taken action aimed at expanding educational opportunities. Public spending on education increased from 2.7% of GDP in 2005 to 4.0% in 2009, but then decreased again to 3.5% in 2010 and 3.4% in 2011. The educational system's structural deficits continue to affect the coverage and quality of education, especially in rural areas. According to the World Bank, the gross enrollment ratio was 110.2% in primary, 70.2% in secondary and 25.5% in tertiary education.

Education policy /  
R&D  
5

Illiteracy rates are significantly higher in rural areas (22.7%) than in urban areas (9.2%). Social education policies have sought to reduce the gap between rural and urban areas. The average years of schooling are 9.2 years in urban areas but only 5.6 years in rural areas.

Socioeconomic factors are strong trigger mechanisms leading to school dropout. Parents cite a lack of financial resources as the main reason why their children fail to finish school. Gender seems to play a much smaller role in determining education opportunities than does the urban/rural divide; the ratio of female to male enrollment in the education system is 95.7% for primary education, 100.9% for secondary education and 112.5% for tertiary education.

In order to help financially weak families with school expenses, the administration has implemented programs that include the expansion of a school meals program in urban public schools. According to the ministry, these programs benefited more than 1.4 million students between 2011 and 2012. The most successful program is the socio-educational plan "Vamos a la Escuela," which was implemented in 2009 and continued through 2014, the first year of President Sánchez Cerén's term.

El Salvador's relatively weak performance in terms of innovation, as highlighted by international observers such as the IMF and the World Bank, is likely to be at least partly due to low levels of expenditure on research and development, which according to the World Bank totaled just 0.03% of GDP in 2011.

# Transformation Management

## I. Level of Difficulty

The political leadership's governance capacity was constrained throughout 2013 and 2014 by a variety of different factors, ranging from the consequences of the global financial crisis to a variety of deeply ingrained social challenges, including high levels of poverty, crime and economic stagnation.

Structural  
constraints

7

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. During the period under review, the economy in the country showed signs of a slow recovery, but not enough to stabilize the country's economy. After a sharp decrease in remittance flows during 2008 and 2009, this critical source of funds for the Salvadoran economy grew by 7.2% in 2012, and repeated the pattern during 2013 and 2014. International observers such as the IMF, the U.S. Department of Commerce and the U.S. Department of State note that the country's low workforce education levels in comparison to regional peers and high levels of violence represent two primary challenges to El Salvador's economic performance, as both 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.

Chronic child malnutrition and significant school dropout rates remain particularly widespread in rural areas that are home to people in extreme poverty. Due to infrastructural deficiencies in these areas, rural communities are particularly vulnerable to a lack of access to public services, water, electricity, etc. Economic stagnation, dependence on remittances, and governance challenges have further contributed to the fairly high level of difficulty in addressing poverty effectively.

Civil society traditions in El Salvador are not strong, but they 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 2012, numerous civil society organizations with diverse societal or political agendas were operating in El Salvador, freely seeking to influence the political decision-making process.

Civil society traditions

5

According to a Latinobarómetro survey in 2010, 25% of interviewees believed they could trust a majority of the population; this figure increased to 28% in 2011, one of the highest such levels in Latin America. Nevertheless, the country's high levels of crime have created a persistent atmosphere of distrust among the Salvadoran people.

Overall, conflict intensity must be assessed as moderate given that the confrontational nature of politics, the polarization and split of society along one or several cleavages and the mobilization of large groups of the population are not very pronounced. However, the use and spread of violence is rather prominent. Although there is neither civil war nor much political conflict, criminal violence predominates, creating a homicide rate that is higher than in the times of civil war.

Conflict intensity

4

While El Salvador's evangelical community, the largest religious minority in the country, is growing quickly, the salience of religious and ethnic cleavages in El Salvador is marginal, and the risk that violent conflict will erupt along these lines is low.

Salvadoran society remains deeply divided by conditions of economic and social inequality, which are the main drivers of crime and violence. Nevertheless, while 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.

## II. Management Performance

### 14 | Steering Capability

Question

Score

Prioritization

8

During the Funes administration's term in office, all government representatives have agreed that the protection of constitutional democracy and a socially responsible market economy are the state's most important strategic long-term aims. The political leadership's ability to set and maintain strategic priorities – so as to advance the long-term aim of democratic stability and political inclusion – contributed to overcoming the political crisis between the legislature and the Supreme Court. The new presidential term is expected to maintain continuity with previous macroeconomic and social goals.

Furthermore, during its first year the Sánchez Cerén government initiated a national consultation process through the National Security Council to elaborate on the plan called El Salvador Seguro, which aims to overcome structural challenges regarding security and crime. The five-year plan has received support from the international community and civil society organizations. The plan has yet to be fully implemented, as expectations are high in an economic context in which funding is the main shortcoming.

The government has gained increasing support in this regard from international organizations, especially from the United States, the country's most important economic and political partner. The United States is responsible for large-scale projects aimed at stimulating public-private partnerships and strengthening social policy in El Salvador, especially regarding security. However, government initiatives to accelerate growth and improve the business climate have been slow to materialize and the only alternative for addressing the gang phenomena has been rejected due to political reasons. This means that, although most politicians and civil society actors agree that dialogue with gangs could lead to opportunities to reduce violence, the use of gang violence for electoral goals undermines the few advantages demonstrated by the truce.

Social policy has been a priority during the period under review, with a particular focus on education in rural areas. Other social programs in the areas of health care and basic services have received comparatively less financial support. Social policy overall has been limited by the state's strained financial resources. The tax reform approved in 2011 has not yet helped to solve the public deficit. The new government has made political efforts to prioritize security issues through the elaboration of a five-year plan, El Salvador Seguro, which includes policy recommendations and outlines financial needs. The main shortcoming of the plan is the lack of continuity of previous policy initiatives.

Despite reported delays, the government showed significant social-policy accomplishments during the period under review, particularly in the area of education. International observers including representatives from the IMF and World Bank have commended El Salvador's government for making good use of international and domestic support in order to achieve its policy goals, while recognizing the significant challenges faced by the political leadership in its attempts to accelerate economic growth and reduce social inequality, especially in rural areas. These challenges include a high level of difficulty associated with the severe impact of the global financial crisis on El Salvador's economy, along with significant structural socioeconomic limitations. International organizations have observed that, despite the political will of the government regarding economic and tax policies, El Salvador's economic growth remains lower than projected. Tax revenue improved, but expenditure pressures resulted in fiscal deficits and public debt levels that were higher than had been expected.

Implementation  
7

Regarding security, both parties publicly rejected the need for dialogue; however, both parties informally agreed that such a solution is the only viable way to reduce homicides and extortion. The same situation occurs with international cooperation organizations that recognize the importance of including gangs in a solution to the problem and promote the idea that the government should find a way to increase the participation of all social sectors. However, doubts remain that a truce as such can resolve the problem of criminal violence. Due to international regulations, especially in the United States and the European Union, support is limited. Both the Funes and Sánchez Cerén governments have failed to achieve certain goals, especially regarding security and the improvement of the macroeconomic situation.

The Funes administration has been quite innovative in its policy-making, and has made considerable changes in the basic principles guiding policy formulation as compared to previous governments. This situation has been continued by President Salvador Sánchez Cerén. This has been particularly marked in the areas of social policy and education, but other important policy issues have also been addressed. A tax reform program was approved in 2011 and implemented in 2012. In addition, after many years of discussion, out-of-country voting was finally approved in January 2013 and will be implemented in the 2014 presidential elections. Furthermore, a new national plan, El Salvador Seguro, has been launched, which aims to address structural problems regarding security and crime.

Policy learning  
7

Although the Funes administration has introduced new policy dynamics, these have not been driven by rigorous monitoring of past experiences. This produced limitations in policy continuation during the Sánchez Cerén administration. Policy innovation normally depends on the personal initiatives of key public officials. Likewise, the Funes government has incorporated the views of policy advisors that in previous administrations were excluded from the policy-making processes. However, the government's influence has been attenuated by the structural foundation of the country's social, economic and political problems.

Despite the truce between gangs, the government continues to use military forces in low-income areas as a part of its public security policy. There are as a result contrasting approaches: on the one hand, a willingness to negotiate with gangs and improve conditions within the prison system, and on the other hand, the use of repressive measures including military force and anti-gang laws. This demonstrates that weak institutional frameworks have allowed the legacies of “strong hand” policies to persist, which in turn has led to increasingly blurred lines between the roles of the civilian police and the armed forces in maintaining law and order. At the same time, the main limitation to innovation is the use of initiatives for electoral goals. Policies tend to be cause for electoral polarization, fomenting either support or disdain for a political party.

## 15 | Resource Efficiency

El Salvador’s government makes efficient use of a substantial part of its economic and financial resources. However, all government efforts to improve resource efficiency continue to face structural problems originating from the state’s comparatively low financial capacity. The public administration is often affected by delays in the approval of budgets, which produces stagnation in a variety of administrative areas, including infrastructure development. Inefficiencies in tax collection and the country’s overall economic stagnation have constrained the availability of resources, rendering the public administration somewhat inefficient. However, there are significant efforts to overcome these shortcomings, which are made possible by the continuation of the same party in government.

The dollarization of the economy, a solid banking system, significant progress in the area of national competition policy following the implementation of the 2006 Competition Law, and comparatively low taxes and tariffs contribute to the country’s favorable business climate. Moreover, the Funes and Sánchez Cerén administrations have made efficient use of domestic and international support, engaging in activities ranging from cooperative ventures with Salvadoran civil society groups to taking advantage of international donor organizations’ loan programs to pursue its political and social-policy agenda.

On the other hand, corruption within state agencies, particularly the judiciary branch and the National Police, continues to pose a significant obstacle to the efficient use of organizational resources. Likewise, weaknesses in the judiciary branch, 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.

Efficient use of  
assets

6

The government has consistently sought to provide support to socioeconomically disadvantaged members of society, a policy course that in the long term is expected to lead to a more efficient use of human resources and improve the country's investment climate. The first results of these policies have already been seen in the reduction of poverty in rural areas, as well as in improvements in education access and quality across the country.

The government generally coordinates conflicting objectives effectively and acts in a coherent manner, although significant tensions between central political actors have occasionally emerged, along with pressures stemming from public opinion. However, this is not necessarily true for security policy. Although there are some differences of opinion within the party in government, they do not become relevant when it comes to supporting public decisions. During the period under review, the most significant political crisis has been driven by the government's position regarding the gangs' will to continue the dialogue. The government was constantly limited by the strong actions of the attorney general, who is applying the anti-gang law in an arbitrary and repressive way. At the same time, the Ministry of Justice and Public Security lacks full control over the actions of the police involved in extrajudicial executions and the harassment of communities.

Policy  
coordination  
8

The most relevant effort to coordinate inter-ministerial policies is the national plan, El Salvador Seguro. Although the private sector and international community support the plan, civil society organizations are skeptical due to high levels of institutional distrust. The plan also includes the creation of specific units and mechanisms of coordination between these units, as well as policy monitoring and evaluation indicators. The main obstacle to the plan is a lack of public resources to implement all recommendations.

During the period under review, both presidents have constantly emphasized the need to curb corruption, and has taken significant steps to uncover corrupt practices within state institutions. Most notable among these was the establishment of a presidential commission in June 2009 tasked with investigating the extent of corruption within El Salvador's political system, along with patterns of office abuse under the previous government.

Anti-corruption  
policy  
5

The government's commitment to anti-corruption activities is in stark contrast to the politicization of the attorney general's office, which has been the focus of serious corruption allegations. The most relevant case is the conviction of former President Francisco Flores, who is in prison for corruption during his time as president. Different sectors have concerns about the involvement of the attorney general in the protection of former President Flores during corrupt operations. Anti-corruption efforts are constrained by the exploitation of information for political gain.

Although there are serious accusations of corruption at the municipal level, there are no judicial proceedings underway. Further integrity mechanisms are often lacking, as in the case of a law requiring political parties to declare the source of their finances. In addition, the state lacks oversight mechanisms able to address organized crime groups' penetration of public institutions such as the police and Prosecutor's Office. For example, no adequate laws against money laundering are in place. In 2011, the U.S. Congress listed El Salvador for the first time as a country with high levels of illicit drug production and trafficking.

## 16 | Consensus-Building

There is fundamental agreement among all major political actors that safeguarding democracy is a long-term strategic aim. The presidential elections in 2014 demonstrated the stability of the Salvadoran electoral system. Although the differences between the two main political parties increased tensions among the population, there were no major incidents and results were accepted by both parties. The change to the electoral system for the forthcoming municipal and legislative election will be a challenge for the Electoral Court. The availability of technical and financial resources for such a change remains to be seen. The extreme polarization of all relevant actors affected the 2014 electoral process by increasing distrust in the political party system and its political leaders. Differences between the main parties regarding democracy and market economy do not translate into policies and governmental measures. Both parties have strong and radical discourses but have demonstrated an ability to negotiate political differences once in power.

Both President Funes and President Sánchez Cerén have been consistent in promoting a free-market system with the aim of stimulating the vulnerable Salvadoran economy. They have maintained previous governments' privatization and liberalization policies, while increasing social spending in an attempt to reduce poverty and socioeconomic inequalities. The administration has strengthened policies recommended by the Inter-American Development Bank (IDB), the IMF and the World Bank. The country's participation in programs financed by the United States has strengthened the relationship between the FMLN government and the private sector. During the period under review, issues such as the implementation of the tax reform were discussed among and accepted by leading political and economic actors.

Consensus on goals

8



There are no significant anti-democratic veto actors in El Salvador insofar as “classical” political actors are concerned (such as the military, influential economic actors or powerful opposition groups). Organized crime remains a latent threat, though its current strategy is to bypass the democratic state rather than actively fighting democracy. The main concern during the period under review was the existence of groups inside and outside the police conducting extrajudicial executions of gang members and youths living in territories controlled by gangs.

Anti-democratic  
actors  
9

The political leadership has taken steps necessary to prevent political cleavages from escalating into conflict. Although religious and ethnic divisions do not play a significant role in El Salvador’s political discourse, and do not pose any immediate risk of evolving into violence, the government has made notable efforts to encourage interfaith understanding. Representatives of the various churches and civil society organizations have come to support the gang truce process. Although these dialogues initially lacked transparency and consequently kindled distrust among political actors and civil society organizations, they represent the first official attempt to change the public approach to the gangs. Nevertheless, *mano dura* or “strong hand” polices have been maintained, at the cost of prevention policies.

Cleavage /  
conflict  
management  
7

The party system has become less polarized. Despite minor deficiencies, the presidential elections of 2014 showed no real risk of violence between political opponents. The same situation is expected for the 2015 municipal and legislative elections.

The political leadership has taken action to prevent the escalation of conflicts grounded in socioeconomic cleavages. This includes the FMLN’s 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 Funes and Salvador Sánchez Cerén administrations have made notable efforts to give non-governmental actors a greater role in the political decision-making process.

Civil society  
participation  
7

The most important example was the creation of a Security Council integrated with a broad range of civil society groups and international community observers. The Security Council implemented a number of dialogue groups to discuss a five-year national plan called *El Salvador Seguro*. The plan has been accepted by all representatives of society and is expected to receive their support during its implementation.

During the period under review, participation of civil society in preventing violence and, in particular, working with gangs has been notably reduced due to harassment and repression stemming from the attorney general. The anti-gang law has been used

to prosecute civil society organizations that are accused of illegal associations through their work with gangs. This also discourages support from the international community. Even the Catholic Church, which was active in supporting the truce during 2012, has limited its direct support to the gangs.

Salvadoran civil society groups also play an active role with relation to migrants. El Salvador is the country with the largest number of migrant associations, most of which are based in the United States. In January 2013, after decades of discussion, the legislature passed a law that allows for out-of-country voting. This power had been strongly demanded by Hometown Associations in the United States.

El Salvador's political leadership made significant progress in bringing about processes of reconciliation during the Funes' presidential term, evincing a clear difference as compared to past administrations. After a speech in October 2010 in which he became the first president to publicly apologize for the prosecution and violent crimes perpetrated against indigenous people throughout El Salvador's history, Mauricio Funes also asked for forgiveness on behalf of the Salvadoran state from the families of the more than 440 victims of killings committed by Salvadoran state security forces in El Mozote in 1981. In December 2012, the Inter-American Court of Human Rights concluded that the Salvadoran state was responsible for the killings in El Mozote. However, the court also noted that Funes' government has adopted a decidedly different position than that of its predecessors with respect to acts of injustice committed by the state during the Salvadoran civil war. During 2014, the case of El Mozote was delayed due to differences between the Supreme Court and the attorney general's office. However, coordination between the two institutions has begun again, especially regarding exhumations.

Despite Funes' evident commitment to a process of reconciliation, there has been little progress in investigating and bringing those responsible for human rights violations during the civil war to justice. The Funes administration – 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 have been made more difficult by persistent patterns of corruption and inefficiency within the judiciary. The Sánchez Cerén administration has yet to show support for reconciliation.

## 17 | International Cooperation

The Salvadoran government mostly makes efficient use of international partnerships to conduct its domestic policy agenda in economic, political and social terms, but is hampered somewhat by administrative shortcomings. The political leadership actively pursued new cooperation agreements and built on existing ones as a means of promoting economic growth and development. Under the Funes government, new agreements included the successful conclusion in May 2010 of an association agreement between the European Union and Central America (excluding Belize), with the explicit aim of fostering sustainable development, regional integration, and political and economic stability in the Central American region. In December 2011, El Salvador was chosen for the second time to be part of the Millennium Challenge Corporation, a U.S. foreign aid program. The resulting Fomilenio II program will be focused on public-private associations, with a particular aim of strengthening the country's maritime coast area.

Effective use of support

9

In November 2014, President Sánchez Cerén signed an agreement with the European Union worth \$200 million aimed at cooperation for youth violence prevention and the reactivation of the productive sector. Additional agreements have been signed by President Sánchez Cerén with different international cooperation and financing organizations: the Central American Bank for Economic Integration approved a loan for the technical and physical renovation of the Water Treatment Plant in Las Pavas, in the department of Cuscatlan; the Central American Bank for Economic Integration (BCIE) approved a \$64.4 million loan to finance the renovation project focused on Works for the Collection, Purification and Treatment of the Electromechanical Water Plant Las Pavas, the most important source of drinking water in El Salvador; the International Cooperation Agency of Japan approved a loan of \$123 million for the construction of 14.5 km of a four-lane road in the north of the city of San Miguel. In general terms, although some corruption problems persist, governments make efficient use of international funding. The main limitation is the country's enormous deficit in terms of infrastructure and technical human resources.

El Salvador's engagement in economic and trade agreements such as CAFTA-DR and the Association Agreement with the EU, 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 have established the country as a credible and reliable partner within the international community. Additionally, ties with the United States continue to be strong, especially after the successful implementation of the Fomilenio I and II aid programs. These programs have since been extended.

Credibility

9

Although international criticism persistently targets the lack of results stemming from security policies, most criticism is focused on “strong hand” policies and usually originates from international civil society organizations. Confidence in Salvadoran policy decisions by governments that support a strong police force and attorney general’s office, such as the United States, has not changed.

Likewise, the successful conclusion of several international negotiation processes, such as the association agreement with the EU, 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 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 its 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 including Salvadorans in August and December 2010, 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, as well as working within international organizations such as the Central American Parliament (PARLACEN), SICA and the Conference of Central American Armed Forces (CFAC). Despite several implementation limitations, El Salvador participates through SICA in regional security initiatives directed against organized crime and gangs. Guatemala and El Salvador have signed various agreements on security and human mobilizations across borders. In July 2013, Guatemala and El Salvador signed an agreement in the border area of Las Chinamas to strengthen border controls and protect free mobilization across both countries. In April 2014, El Salvador, Honduras and Nicaragua signed an agreement to promote development, commerce and business in the Fonseca Gulf area.

Regional  
cooperation  
10

## Strategic Outlook

Despite serious structural constraints that are beyond the political leadership's control – most notably, the global economic slowdown caused by the global financial crisis and the persistent economic stagnation– President Funes' government made significant progress in addressing some of El Salvador's most pressing and deeply ingrained social and political challenges. The first FMLN-led government since the end of the civil war was clearly committed to providing balance in what had previously been a fragmentary transformation progress. Previous governments had made major achievements in progressing toward a fully consolidated free-market economy but, after peace-building processes were completed, they did not pursue substantive social or political reforms in such a way as to deepen democracy.

The first year of President Sánchez Cerén's term has been marked by the continuity of all major initiatives from the previous government. However, Sánchez Cerén's leadership lacks dynamism, while rumors of serious health issues generate distrust among political partners such as the private sector and civil society organizations. Inside the FMLN, the election of Sánchez Cerén is the expression of serious divisions, making policy decisions and implementation difficult for key ministers such as that of Justice and Public Security.

The performance of Salvador Sánchez Cerén will depend on his ability to avoid divisions inside the FMLN, and also 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 of Sánchez Cerén ought to give greater priority to the country's poor prison conditions, in part by improving access to continuing education and training programs, and should focus on strengthening the education and research sectors more broadly. 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 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 in 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. The government has a fundamental role in promoting collaborative actions of key relevant actors, such as the private sector, to support the rehabilitation and economic integration of gang members.

In addition, a more intensive collaboration with civil society organizations is needed. 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 investment through public-private partnerships, increase domestic productivity and diversify the export sector will be crucial to strengthening the country's free-market system. Another important element for the country's transformation will be the implementation of the national plan, El Salvador Seguro, a valuable opportunity to orient the interests of different social sectors toward five-year goals.

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.