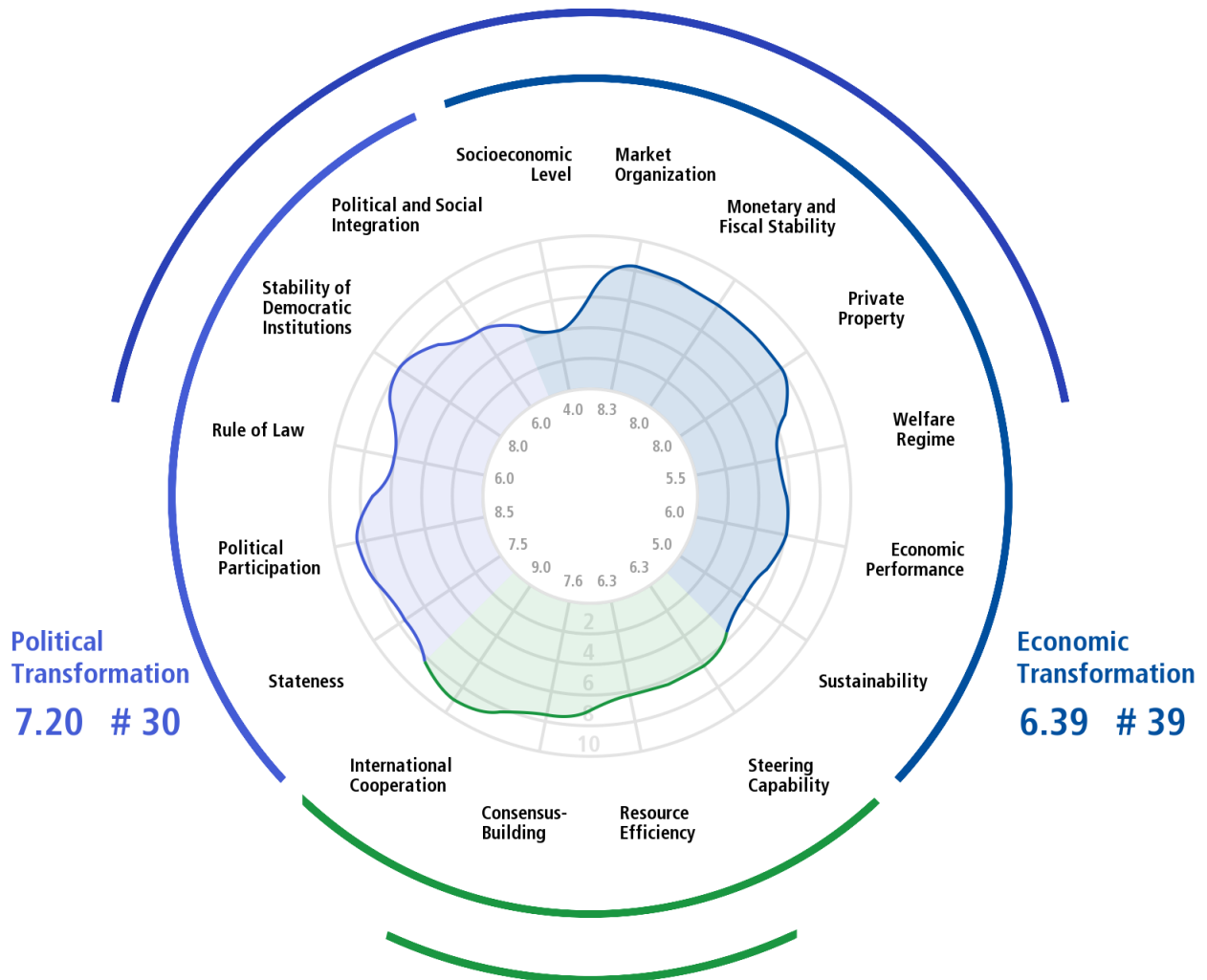


El Salvador

Status Index

6.80 # 31

on 1-10 scale out of 137



Political Transformation
7.20 # 30

Economic Transformation
6.39 # 39

Governance Index

6.54 # 16

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2020 Country Report – El Salvador. Gütersloh: Bertelsmann Stiftung, 2020.

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Key Indicators

Population	M	6.4	HDI	0.667	GDP p.c., PPP \$	8317
Pop. growth ¹	% p.a.	0.5	HDI rank of 189	124	Gini Index	38.0
Life expectancy	years	72.9	UN Education Index	0.566	Poverty ³	% 8.5
Urban population	%	72.0	Gender inequality ²	0.397	Aid per capita \$	23.7

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

The results of the 2018 legislative and municipal elections and the 2019 presidential elections were the salient expression of political trends in El Salvador during the past two years. In the case of the legislative elections, the political equation was altered significantly: the ARENA party on the right increased its seats from 35 to 37 while the FMLN party on the left dropped from 31 to 23 seats. The 24 remaining seats were split up among smaller parties mostly on the right, which have been characterized more for their opportunism than their ideological consistency.

These results were seen by many as a forecast of the 2019 presidential election: a resurgence of ARENA and its return to control of the government. However, the presidential elections held on February 3 turned into a political revolution. Nayib Bukele (37-years-old), a former mayor of San Salvador (2015-2018), ran as the candidate of his own political movement, Nuevas Ideas, but under the banner of GANA, an offshoot party of ARENA. He won in the first round with 53% of the vote, while the ARENA candidate got 31.7% and the FMLN candidate 14.4%. However, only 51% of registered voters bothered to cast a ballot. Thus, the voting age population expressed both a rejection of traditional party preferences and a considerable indifference toward political participation.

The new president assumes office in June 2019. He will have no formal legislative support other than the ten GANA legislators (out of 84 in total) but will have to face a number of issues that continue to challenge the executive and legislative branches of government. One was the near-crisis of the government's fiscal solvency in 2018, both in terms of regular social and administrative expenditures and of support for pension plans, which had not been able to meet their obligations to retired people. The negotiations between right and left produced an agreement that many criticized as a stopgap measure, which, nonetheless, has provided more time to negotiate a long-lasting solution based on firmer demographic data and reforms of existing pension plans.

The government's fiscal solvency also was addressed by the Supreme Court, when it ruled in 2017 that the national budget approved by the legislature was unconstitutional because it did not adequately fund certain outlays. It ordered the legislature to reform the budget accordingly and to suspend all new hirings and purchases until these concerns had been addressed. This decision is in line with a more assertive role by the Court in the political debate, which many believe is necessary for the future health of democracy in El Salvador.

The work of the office of the attorney general has also been praised for investigating the cases of corruption involving former presidents of the Republic. This is a notable break with the tradition of presidential immunity and in line with president-elect Bukele's promise to stamp out corruption; however, this would also require that the new attorney general (chosen recently from the ranks of ARENA) continue the work of his predecessor.

The results of the 2019 presidential elections will provide an opportunity for testing the lessons and experiences of the past years, especially with regard to issues that cannot be postponed much longer, above all the sluggish performance of the economy, the continued high levels of social violence and spending on education and health in order to meet the country's commitments to various international development goals.

History and Characteristics of Transformation

El Salvador's authoritarian political system began to unravel in the late 1970s when civil disobedience reached levels that made the country ungovernable. The military, which had run the country for nearly half a century, tried to repress dissent but the country sank into civil war. When peace was signed in 1992, a new political system came into existence based on political and civil rights, as well as an economy organized more than ever before along lines of private enterprise and free markets when compared to the much greater level of state intervention and counterinsurgency policies during the war years.

Since then, the political debate has involved primarily the ARENA party as the main force on the right and the FMLN on the left. ARENA has become the mainstay of private enterprise and fiscal responsibility. Its candidates won all four presidential elections after 1989 and controlled the executive branch of government until 2009. During their tenure in office, the country experienced an initial period of rapid economic growth and lowered its customs duties. ARENA also presided over the dollarization of the economy in 2000. After 2000, economic growth was less pronounced and practically stopped during the 2008 world economic recession, after which it has been very modest.

In 2009, the FMLN's candidate won the presidential election and there were concerns that the new government would undercut the free-market policies of the ARENA years. Instead, what has characterized the FMLN governments up to the present is a commitment to the disadvantaged sectors of the population via increased spending in education and health, which, together with

government support for pension plans, has put increased pressure on government finances. By 2017, government debt and budget deficits reached a point that was deemed untenable to the point that a law was passed to require the government to prepare budgets with limits on deficit spending and indebtedness.

Low economic growth and increases in budgetary outlays are a formula for political confrontation: ARENA demands more fiscal responsibility and the FMLN insists on the need to address the country's social inequities. To this must be added the explosion of social and criminal violence of the last decade that has fueled a very intense and acrimonious political debate over how it should be addressed. Most agree that social and economic disadvantages are the root problem, aggravated by a large number of children and young people who have been left to fend for themselves after their caregivers (parents mostly) have emigrated in search of better opportunities abroad.

There are a number of other issues and problems that have been accumulating over the years. The country is one of the most environmentally degraded on the continent, the result of high levels of population density together with non-sustainable farming practices (peasant farming on slopes and chemically intensive production of crops for export, for example). Water shortages are bound to increase as urban populations grow unabatedly while reliance on food imports is very high.

As electoral promises of the past years have failed to materialize, there is growing disenchantment with traditional political parties, compounded by the very serious cases of corruption in the office of the president and other levels of government. This contributed to the election of Nayib Bukele in February 2019 elections, a former mayor of San Salvador who was allied with the FMLN but was expelled from that party for insubordination and who has allied himself with a small party of disgruntled former members of ARENA. His platform is extremely ambitious and has been criticized as not viable or fundable, but it does not represent a departure from the basic consensus on private enterprise and free markets.

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

The state's monopoly on the use of force in principle covers the entire territory of El Salvador. Since the end of the civil war in 1992, no irregular armed group threatens the state's ultimate control of any region of the country. However, there are particular pockets where crime levels are persistently high enough to suggest a significant loss of state control over population and territory and its ability to guarantee basic civil and human rights.

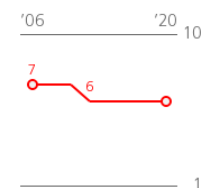
The state's police forces – reinforced in some cases by army troops – are mostly unchallenged when patrolling over any portion of the country but some areas, mostly in and around the capital of San Salvador, are strongholds of youth gangs that dispute control over the territory of their neighborhood. These contested areas are mostly poor or very poor and youth gangs have gained a foothold in part as a result of few opportunities for the younger generations.

On occasion, confrontations involve firearms and the death of police officers and gang members. For example, in 2017 a total of 45 policemen died violently, as well as 21 soldiers assigned to patrol duties; some of these individuals were off duty when they were killed. Concern has also been raised about extrajudicial killings of presumed gang members during confrontations with the police and in other circumstances that suggest the existence of contract killings (death squads). Beginning in 2016, the attorney general's office has prosecuted a number of groups of police officers engaged in contract killings; however, the rapporteur of U.N. High Commissioner for Human Rights issued a country report at the beginning of 2018 that underlined the continued seriousness of extrajudicial killings and, just as worrying, the lack of investigations and convictions of those responsible by the authorities.

Question
Score

Monopoly on the
use of force

6



A large majority of the population identifies with the Salvadoran nation-state as currently organized. No one born in the country is denied citizenship and foreigners can request and receive citizenship status under conventional provisions and procedures. Women have been granted full citizenship rights (voting, for example) since the middle of the 20th century. On the other hand, many people have left the country to seek a better life abroad and a growing number to escape from the threat of interpersonal violence within the country. Some estimates speak of up to a third of the population currently living not within the Salvadoran territory. This means that a considerable part of the population in the country today maintains close links with someone – relative, friend, business associate – living abroad, especially in the United States.

The state is nominally secular. Religious organizations can operate freely and received legal recognition as such; the legal status of the Catholic Church is recognized in the constitution. Religious influences can be detected in a variety of situations. For example, El Salvador is one of the very few countries in the world to prohibit abortion under any circumstances, a position in response to pressure from religious groups. Also, religious leaders speak out regularly about current affairs, not that their opinions are translated necessarily into political decisions. It might be added that the recent canonization of Archbishop Oscar Romero, the first Salvadoran saint, has created a profound impression among the people.

The civil war of the 1980s disrupted many of the state's regular operations, especially in the fields of education, health, security, and infrastructure. Since the end of the war in 1992, the state has improved and extended its operation in the fields of education and health, both of which can be statistically verified. The improvement of the state's role in these areas is due in part to a declining rate of population growth, which puts less demands on public institutions. However, a noticeable increase in urban populations and declining water reserves have placed great pressure on the state's national water authority to provide adequate drinking water. Even though more than 90% of the population has access to improved drinking-water sources, the World Bank estimates that 48% of the drinking water supply is intermittent and 50% of the population reports that water quality is unsatisfactory. And only three-quarters of the population has access to improved sanitation facilities (flush toilets, latrines or other improved facilities).

The state's public security and justice systems are still very much wanting, i.e. judicial backlogs, inefficient/ limited police patrolling, low capacity for criminal investigation, overflowing prisons. Part of the problem is a reflection of insufficient public income from taxation and high levels of public corruption.

State identity

9



1

No interference of religious dogmas

9



1

Basic administration

6



1

2 | Political Participation

Since the end of the civil war in 1992, all registered political parties from the entire political spectrum have participated freely in regularly scheduled elections for national and local office. There is public funding for political parties in proportion to results obtained in the previous electoral event. All citizens who have registered in the electoral rolls are entitled to vote; citizens living abroad can also vote, although the procedures for doing so are still cumbersome for many. International observers are free to visit polling stations at their discretion.

From 1989 to 2009, the office of the president (a five-year term) was occupied by ARENA, the pro-business party on the right; since 2009, the presidency was in the hands of the FMLN, the left-wing party that grew out of the civil war. The presidential election held in February 2019 saw three principal candidates running for the office. The winner was an “outsider,” Nayib Bukele, who had been mayor of the capital for one term and was able to build up an enthusiastic following thanks, in large measure, to the intense use of social media and a generalized disgust with the traditional parties on the right and the left. Nayib Bukele, heads a powerful political movement that was not able to register as a political party and, therefore, had to be nominated by a small party (GANAs) that broke off from the right-wing ARENA party.

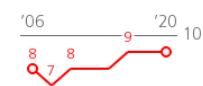
The transparency of election outcomes has been criticized when there have been undue delays in announcing election results, but since all main parties participate in the national election board, their ultimate legitimacy has not been questioned. In recent years, the election board has produced ballots with photographs of the candidates to assist voters in identifying their preferences. The Supreme Court has also ruled that it not necessary for a candidate to belong to a political party in order to run for office.

Since the successful exclusion of the military from politics after the 1992 peace accords, there are no overt veto powers or political constraints on elected government officials. Business interests, both national and multinational, continue to exercise strong political influence, mainly through financing of party activities and their direct links to elected officials.

The elected political representatives include the president of the republic, the legislative assembly, and the local (municipal) government councils. As is normal in democratic regimes, all must take a variety of interests into consideration before making a decision on a specific issue. The FMLN government (in office until February 2019) is a party on the left, which has been constrained from implementing a significantly leftist agenda given the essentially free market nature of the country’s economy and the political weight of the private sector. El Salvador’s special relationship with the United States – involving issues such as migration, trade, loans, a dollarized economy, drug-trafficking – also means that Washington’s concerns must be heard and processed very carefully.

Free and fair elections

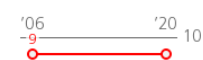
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1

Effective power to govern

9



1

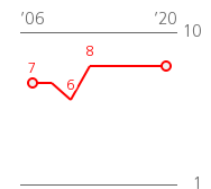
The right to assemble and peacefully demonstrate and petition is one of the most important achievements of the country's political system since the peace agreements of 1992. This right is exercised most often during electoral campaigns but demonstrations around any number of issues are a common occurrence at other times, including women's and workers' rights and demands for improved public services. Religious events of all denominations are widespread. It can be argued, of course, that in an environment of widespread violence associated with gangs and the government's avowed policy of forcefully repressing them, people will be fearful of pressing their demands openly. And there have been isolated cases of protests that end in violence, as happened in November 2018 in a city next to the capital when street vendors confronted the police and one of them died of gunshot wounds; the national government condemned this incident and criticized the use of "excessive force."

Freedom of expression and of the press are constitutional rights, which are generally respected. Two large and two small daily newspapers compete for readership and a number of internet news sites that specialize in investigative reporting and political analysis have become increasingly popular. In addition, there are numerous television stations; the most important are owned by private concerns but some universities also have begun broadcasting along more public service lines. Privately owned radio stations continue to be the most widely consumed medium for information and advertising; however, attempts to set up community-based public service stations have met numerous legal, technical and financial obstacles derived from a telecommunications law, which is geared to favor private radio stations, including the auction of radio frequencies to the highest bidders. Social media operates unhindered and is an increasingly popular medium for broadcasting news and opinion.

One of the biggest threats to freedom of expression involves the safety and security of journalists in a country with very high levels of violence. The 2018 Press Freedom Index of Reporters Without Borders ranks El Salvador in position 66 out of 180 countries, having worsened from position 62 in 2017. Reporters Without Borders also states that the government in recent years has been more reticent to provide access to information that is considered in the public domain, especially with regard to the use of public monies.

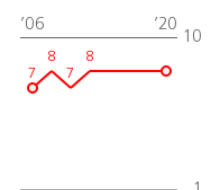
Association / assembly rights

8



Freedom of expression

8



3 | Rule of Law

The system of government is based on a separation of powers, which is most evident in the relations between the executive and the legislature. Since no single party has controlled the legislature in recent times, there has been a fairly regular process of negotiation between the executive and legislative branches, especially when it comes to the approval of the yearly budget and international loans (which require a two-thirds majority vote for approval). However, the oversight function of the legislature is mostly lacking; it is uncommon for a government minister to be questioned before a legislative commission about her/his performance on the job or some specific issue of public concern. At most, the president and his ministers are required to present year-end reports on their work to the legislature, but these are mostly exercises in back-patting.

More interesting in recent years has been the role of the Supreme Court, which for decades busied itself as a high court of appeal in criminal and civil cases. Now the Court's constitutional chamber is handing down decisions that directly affect existing legislation and the operation of the political system. In terms of elections, in 2010 it resolved that independent candidates should be allowed to stand for public office; in 2011 that ballots should have the photographs of all candidates for easier voter recognition; and in 2014 that citizens should be allowed to vote for individual candidates (and not for party lists as previously). In 2013, it ruled that the election by the legislature of the president of the Supreme Court itself was unconstitutional due to the candidate's links with a political party that compromised the independence of the judiciary.

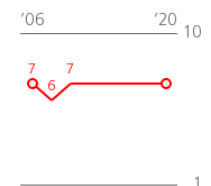
Other important rulings include: a) the amnesty law passed in the 1990s to exonerate war crimes and human rights violations is unconstitutional (2016); b) the government's budget as approved is unconstitutional because it underestimated expenditures (2017); and c) the armed forces cannot legally purchase war material without going through a public bidding process (2017).

The operation of the judiciary can be approached from two perspectives: the constitution-related rulings of the Supreme Court; and the judicial proceedings of lower courts that handle criminal and civil cases. The Supreme Court has expanded its scope of judicial review and, thus, comes under political pressure when it must rule on certain politically charged issues, such as the amnesty law of the 1990s. The makeup of the Court is itself a political issue as evidenced during the latter part of 2018 when a number of Supreme Court judges are up for election by the legislature, but political wrangling has held the process up for some time.

The lower courts continue to be swamped by backlogs of pending cases and access to justice, especially in rural areas, is still a problem. Inefficiency is compounded by corruption and insufficient funding, not to mention the high rates of violent crime that

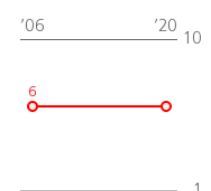
Separation of powers

7



Independent judiciary

6



need to be addressed judicially. As a result, impunity is widespread and the judicial system is perceived as not being up to the task of delivering timely and equal justice for all.

Although El Salvador has lower levels of corruption overall in comparison with other Latin American countries, reports have cited persistent patterns of both petty and grand corruption – often linked to organized drug trade and money laundering – within state agencies, in particular within the judiciary and the police and in contracts involving public works and purchases.

In the past three years, a new attorney general has undertaken an aggressive stance to root out corruption at the higher levels of government. Two former presidents have been singled out for charges: one of them (Mauricio Funes, 2009-2014) fled the country when it seemed apparent that he would be arrested and charged; a second one (Antonio Saca, 2004-2009) was sentenced to ten years in jail in September 2018 for embezzling public funds while in office. Between both of them, it is estimated that over \$600 million were misappropriated over the ten-year period. In addition, a former attorney general was arrested and is facing charges of dereliction of duties and corruption of judicial proceedings.

That so much money was misappropriated reflects very poorly on the oversight responsibilities of the national auditing office (Corte de Cuentas), an institution that has been heavily politicized precisely because it clears officeholders of any financial wrongdoings when they leave office. Over the years, there have been calls to reform or abolish this office in order to rein in corruption, but nothing has changed. The elections by the legislature of the directors of this office are always politically charged, which suggests that corruption and questionable practices in government are ingrained, at least in the upper levels. One example is under-the-table payments of cash bonuses to government ministers in amounts considerably greater than their official salaries; this has been a practice going back decades that is financed out of the president's discretionary funds and while not strictly illegal, it brings into question the use of public monies to buy loyalty or silence.

At other levels, the attorney general's office has prosecuted a number of mayors for having authorized construction projects in exchange for bribes. However, these cases pale in comparison with those at the presidential level, which have involved dozens of individuals and banks in sophisticated networks of corruption. Some public works contracts have also come under suspicion when the contractor failed to deliver as agreed upon, in addition to contracts presumably handed out to allies for political gain.

Prosecution of
office abuse

6

'06 '20 10

6

1

The respect of civil rights was one of the main expectations and hopes of the country in the years following the peace accords of 1992. Such was the concern that an office (ombudsman) of human rights was established to monitor the compliance with human and civic rights. In the main, the legislation that addresses civil rights has fulfilled these expectations, but its implementation has been sorely affected by social conditions in the country. The rates of violent death in El Salvador are among the highest in the world and although most can be attributed to interpersonal conflicts, the role of state agents cannot be underestimated and reports of extrajudicial killings are particularly worrisome.

Violence is also directed at groups that are socially discriminated against, such as homosexuals, indigenous groups, and women. The homicide rate among women, in particular, has been on the rise. But it is young people, in general, who are at greatest risk. Prosecution of cases of homicide is only partly successful; most cases of homicide remain unsolved. Youth gangs are perceived to be most responsible for violence in society and public opinion polls, which are reflected in government policy, are supportive of heavy-fisted measures against them (arbitrary arrests, physical abuse, doctored judicial proceedings).

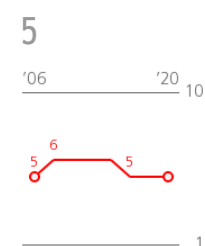
When people have suffered violations of their basic rights, their response is generally a reflection of their social standing. For people who are poor and live in areas with high levels of social violence, one option is to seek redress at the offices of the attorney general or the human rights advocate, but their response is generally slow or ineffective. Another option that is becoming more frequent over time is to flee danger by relocating within the country or emigrating entirely, regardless of the human and economic cost. For middle- or upper-class populations, on the other hand, danger is reduced by living in gated communities and moving about in private automobiles in areas that are better policed and generally safer.

4 | Stability of Democratic Institutions

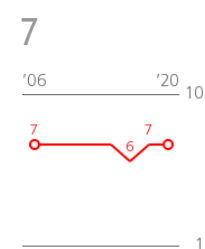
The Salvadoran government system is still evolving. Its institutions are under the direction of individuals who might have limited administrative or professional skills; many are staffed by people who have risen through the ranks and promoted on the basis of seniority. On the other hand, new laws passed by the legislature and rulings handed down by the Supreme Court have modified the operation of the political system and the make-up of state institutions. Some of the most important involve the organization of elections and the composition of municipal councils. For example, the composition of municipal councils is now based on the principle of proportional representation; previously, the winning party took all the seats on the council.

Most political confrontations on policy and review occur within the legislative branch of government given the fractured nature of party representation. Since the 1990s, no single party has enjoyed a majority in the legislature, which has resulted in coalitions

Civil rights



Performance of democratic institutions



that involve power-sharing in government institutions and the appointment of diverse public officials that are reflections of the influence of smaller parties far beyond their real electoral strength. Still, the legislature has been able to pass the laws that are required to keep the government operating, including yearly budgets and some specific laws to address pressing issues, and has done so under intense scrutiny of the media and public opinion.

However, some required legislation and government action has been held up due to friction between institutions. Legislation to combat corruption in government is still insufficient and specific issues (such as social violence and water scarcity) have not been addressed effectively. Part of the problem has to do with the learning curve of each new government: by the time policy proposals on serious or difficult issues begin to take shape, the next election cycle – legislative and/or presidential – is on hand and decisions are held in abeyance for fear of provoking adverse reactions and poor voting results.

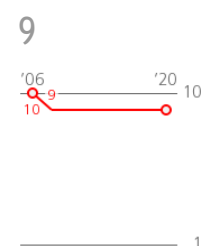
All relevant political actors accept the legitimacy of the state's democratic institutions. No important voices are heard questioning the current organization of the state or proposing a fundamentally different political organization (for example, a parliamentary system or, even less so, an authoritarian-style arrangement). There are voices demanding change and reform, especially in reaction to the most recent cases of massive embezzlement of public funds by two former presidents and the need to tighten audit and oversight mechanisms. A number of public institutions charged with providing social services (health, public safety, social security, retirement funds) also have been criticized. However, solutions are always proposed within the existing political and institutional framework.

5 | Political and Social Integration

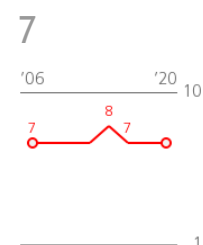
The party system over the last three decades has been remarkably stable: the two parties that emerged from the civil war of the 1980s – ARENA on the right and the FMLN on the left – have until recently attracted the majority of voters as well as best reflecting the ideological division of the country. Two other much smaller parties – the Christian Democrats and the PCN (National Coalition Party) – are holdovers from the very beginnings of modern political parties in the 1960s. Another newer party - the Gran Alianza Nacional (GANA) - is a split-off from ARENA that currently is third in number of legislators after the last election in March 2018. (The 2018-2021 legislature has 37 ARENA deputies, the FMLN has 23, GANA has 10, and the PCN has 9.)

ARENA and the PCN have been allied before and backed a joint candidate for the February 2019 presidential elections to compete against the candidate of the FMLN. However, a third-party presidential candidate previously affiliated to the FMLN and nominated by GANA, Nayib Bukele, won the election outright and turned the

Commitment to democratic institutions



Party system



political landscape upside down. It is obvious that the results of the 2019 presidential elections represent a rejection by the electorate of the traditional parties and a decision to embrace an alternative that has promised concrete results.

Political parties have been mostly active among the population during election cycles: every three years for legislative and mayoral elections and every five years for president. For many among the voting population, political campaigns are when the candidates make the rounds and “ask” for their vote, usually accompanied by small gifts and handouts of food. After elections, political clientelism takes the form of access to government officials: the right contacts and party affiliation can make dealings with the government much easier. However, clientelism is not considered a problem that requires special attention unless it devolves into glaring cases of corruption.

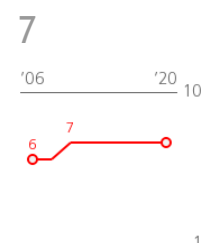
Nor is political polarization a real problem. After more than a quarter of century since the signing of the peace accord, left and right have agreed on the basics of political cohabitation: the left works for increased social spending and social benefits, the right defends the interests of the private sector. The fact is that some of the main problems that the country faces – social violence, massive emigration, environmental degradation – are not strictly ideological nor can they be addressed ideologically.

Most Salvadorans are represented within the political system as card-carrying members (activists) of political parties or as voters during elections. That being said, there are numerous interest groups and associations that promote a variety of agendas. The most powerful and influential are those that represent private sector interests, especially the Salvadoran Association of Private Enterprise (ANEP) and the Salvadoran Chamber of Commerce and Industry. The private sector also has a very important think tank, the Salvadoran Foundation for Social and Economic Development (FUSADES), that produces regular reports and research results on the economy and the political situation. Other organizations of the private sector represent specific business activities (builders and contractors, farmers, manufacturers) and professions (economists, lawyers, physicians).

Numerous other interest groups are more concerned with social issues, either as advocates or activists: environment (especially water), gender (women’s rights, abortion, marriage equality), political accountability, education, and violence prevention. Surprisingly, the labor movement is now relatively inactive after being one of the main forces for change before and during the civil war of the 1980s.

As might be expected, the level of participation or activism of specific interest groups is in line with the agenda of the incumbent government but some issues have acquired an importance that transcends a given government’s priorities, for example, environmental concerns, social violence, and corruption.

Interest groups



Two issues stood out in El Salvador in the past few years: the corruption scandals involving two former presidents and the consistently high levels of violence (homicides, injuries). To these should be added the chronically underperforming economy. Together, they explain quite well why the Salvadoran population has registered declining approval ratings for the democratic system of government, whether the system is responsible or not for those issues.

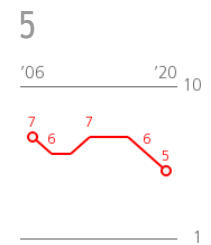
According to the LAPOP survey of 2016, 54.6% of Salvadorans approved of democracy as the best political system, down from 67.8% in 2004. But according to the results of the Latinobarómetro survey of 2018 carried out in all of Latin America, the democratic system in El Salvador was ranked the lowest of all (together with Guatemala) with only a 28% approval rating (in 2013 it was 49%). The differences in the results of both surveys call into question the methodology and analysis employed but the trends speak for themselves. According to the Latinobarómetro survey, 54% of respondents in El Salvador said that a non-democratic political regime would make no difference to them but, on the other hand, only 11% said that an authoritarian regime would be better.

Democratic institutions are highly questioned in the results of the Latinobarómetro survey of 2018: the approval level for the electoral system is only 12%, the judiciary is 14%, the legislature 10% and political parties 6%. The LAPOP survey of 2016 gives better approval results but they are all down from previous similar surveys: the electoral system is at 51%, the legislature at 44% and political parties at 19%. On the other hand, in both surveys the Church and the armed forces are somewhat better evaluated: according to Latinobarómetro at 52% and 27% respectively compared to LAPOP at 61% and 66% respectively.

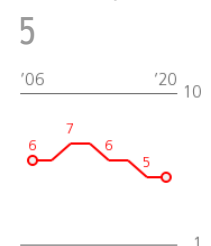
Since the end of the civil war in 1992, the rights and freedoms enjoyed by Salvadorans have been translated into an abundance of local initiatives to improve living conditions, some of them sponsored by religious organizations, others by civic groups. Some lobby before government offices to demand action around a specific grievance, others become involved directly in local problems. In some cases, social organizations are practically substitutes for an ineffective or distant state; this is particularly evident in those towns and villages whose inhabitants have emigrated and send back resources to finance self-improvement projects.

In recent years, their work has been made much more difficult by rising crime and violence, both by criminal groups (gangs, drug cartels) and by a state that seeks to suppress them. This environment is particularly hostile for those groups that work to improve the living conditions and opportunities for young people at risk of becoming involved in criminal activities, especially in poor urban settings; in these areas, it is very difficult or impossible to promote sports and cultural activities or vocational training and small business projects.

Approval of democracy



Social capital



To add to these contextual impediments, the latest Latinobarómetro survey (2018) ranks El Salvador mid-way among all Latin American countries in levels of trust among individuals: only 13% believe that one can trust a majority of people.

II. Economic Transformation

6 | Level of Socioeconomic Development

El Salvador is today considered a “middle income” country with a per capita GDP of about \$3,900 in 2018, according to the World Bank, and a poverty rate at 29.2% in 2017. However, the poverty rate has been fluctuating noticeably in recent years (from a high point of 40.6% in 2011 to 29.6% in 2013 and up again to 34.9% in 2015), which calls into question the validity of the data or the method employed to calculate the rate. As might be expected, the rural poverty rate (37.9% in 2016) has been consistently higher than the urban poverty rate (28.5% in the same year). When poverty is measured against a daily purchasing power of less than \$3.20 per capita (adjusted for PPP), the poverty rate in 2016 stood at 10.3%. With a score of 0.674 in 2017, El Salvador ranks 121 out of 189 countries in the Human Development Index.

Over the long term, the Gini index of income inequality for El Salvador has fallen from 54.5 in 1998 to 40.0 in 2016 according to World Bank estimates based on government household surveys. Figures on income distribution also suggest a decline in inequality: in 2005, the highest 10% income bracket received 36.8% of national income but dropped to 30.7% in 2016. However, the lowest 10% only increased its share of national income from 1.2% to 2.3% in the same period, which would suggest bigger proportional rises in income among middle- or upper-middle-class sectors. Still, ingrained socioeconomic inequalities are a structural reality that have proved resistant to easy or quick solutions. Opportunities for women are still lagging; the Gender Inequality Index ranks El Salvador 91 out of 189 countries with a score of 0.392.

Economic indicators		2015	2016	2017	2018
GDP	\$ M	23438.2	24154.1	24928.0	26057.0
GDP growth	%	2.4	2.5	2.3	2.5
Inflation (CPI)	%	-0.7	0.6	1.0	1.1
Unemployment	%	4.0	4.4	4.4	4.4

Question
Score

Socioeconomic
barriers

4

'06 _____ '20 10

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Economic indicators		2015	2016	2017	2018
Foreign direct investment	% of GDP	2.1	2.0	2.0	1.6
Export growth	%	3.3	0.2	4.7	2.9
Import growth	%	4.7	-0.5	-0.8	5.2
Current account balance	\$ M	-753.8	-550.1	-464.6	-1241.8
Public debt	% of GDP	64.3	65.5	67.3	67.1
External debt	\$ M	15571.5	16566.4	17179.9	17486.2
Total debt service	\$ M	1307.7	1405.3	3812.8	3554.5
Net lending/borrowing	% of GDP	-1.3	-0.2	-0.6	-
Tax revenue	% of GDP	16.8	17.4	17.8	-
Government consumption	% of GDP	16.5	16.2	16.3	16.1
Public education spending	% of GDP	4.0	3.9	3.8	-
Public health spending	% of GDP	4.4	4.5	-	-
R&D expenditure	% of GDP	0.1	0.1	-	-
Military expenditure	% of GDP	1.1	1.0	1.1	1.0

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

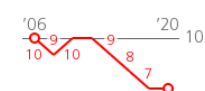
7 | Organization of the Market and Competition

The constitution enacted in 1983 contains provisions on the rights to private property and economic freedom under the proviso that they enhance social well-being (articles 102 and 103); the obligation of the state to promote and support productive economic activities (article 101); and the right to expropriate property upon payment of its market value (article 106). Other articles refer to issues of more recent relevance, such as the limit of 245 hectares on the amount of land that can be held by an individual or company (article 105) and the state's regulation of public services and utilities under private property, including price controls on some of these (article 110).

Since the end of the civil war in 1992, these constitutional provisions have been respected by the successive governments on both the right and the left. In 2000, the U.S. dollar was established as legal tender, a measure that eliminates all possible manipulation and controls on the currency by the government and places no

Market
organization

7



restrictions on profit transfers (although banks are required to report all sizable deposits, withdrawals, and international currency transactions). Nor are there restrictions on foreign investment, which is currently centered mostly in the financial, telecommunications, and offshore production sectors. There have been calls to abolish the constitutional provision that limits the size of landed property because it supposedly impedes investment in agribusiness and other large-scale enterprises.

The Heritage Foundation's Index of Economic Freedom 2019 ranks El Salvador 84 out of 180 countries and classifies the country as "moderately free." According to Doing Business 2019, the cost of starting a business is rather high, ranking 147 out of 190 economies in the Starting a business index, with nine procedures, 16.5 days, and costs the equivalent of 45.1% of per capita GNI (about the same as neighboring Honduras but somewhat more expensive than Guatemala or Costa Rica). The World Bank identifies the high rates of crime and violence as the main cause for low rates of private market investments. The given high costs of risks and insecurity lower the freedom for market actions considerably.

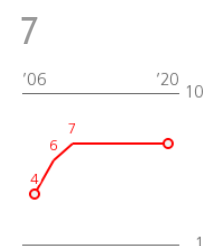
Despite measures and provisions that should stimulate growth in the formal sector, a very large proportion of the country's total work force – about 70% in 2017 according to ILO statistics – is still engaged in informal sector economic activities that lie outside of the formal social security and taxation systems.

Article 110 of the constitution explicitly prohibits the existence of monopolies (except under State or municipal control when deemed socially necessary). A Competition Law was adopted in 2006 and an office of the Superintendent of Competition set up shortly afterwards with public funding to undertake studies on market conditions and call out business practices that contravene the law. Moreover, the Superintendency has an important role in promoting competition principles in the economic reform process. Its Board of Directors is authorized to issue opinions on draft laws, ordinances and regulations, as well as on public procurement processes that could restrict competition. However, merger control is insufficient, because the thresholds are too high for a small economy such as El Salvador. Therefore, a lot of mergers below the thresholds are already harmful for consumers and competition.

To date, the office of the Superintendent has carried out 26 studies on business practices and won 45 cases resulting in more than \$16 million in fines but of these only 20% have been collected as a consequence of appeals and administrative delays. Perhaps not much more can be expected from an office with 52 employees, of which only 32 are involved directly in case work.

In recent years, a number of important cases involving non-competitive practices have come to the attention of the authorities. One has concerned the production, import, distribution, and sale of medicines that were controlled by a small number of companies. A law was passed in 2012 that regulates the price of medicines using the international reference price established by the WHO as a benchmark. Another case

Competition policy



involving two large flourmills was finally resolved in 2017 when the Supreme Court ruled that the fine imposed by the office of the Superintendent of Competition must be paid. Still another case involving three mobile telephone operators that colluded to fix prices was resolved in 2016 by the Court in favor of the fine imposed by the office of the Superintendent of Competition.

El Salvador's very liberal trade policy is a reflection both of current worldwide trends and the need to respond to substantial inflows of remittances that today amount to about a fifth of the country's GDP. Remittances began to rise during the 1980s as a consequence of large-scale emigration and, concomitantly, inflationary pressures became a concern as the country's productive capacity would be unable to meet increasing demand for many goods and services. As a result, trade barriers were reduced, especially after the country joined the WTO in 1995 and, subsequently, the Central American Free Trade Agreement (CAFTA) with the United States in 2006.

According to the WTO, the country's simple average bound tariff rate in 2017 was 36.7% and its applied MFN tariff was 6%. There are very few import quotas or export limitations. In the case of countries that do not have a bilateral trade agreement with El Salvador, most tariffs do not exceed 15% as established by its membership in the Central American Common Market (CACM). Since El Salvador has strong textile and clothing industries, tariffs on new and used finished clothing are generally 25% and fabrics are subject to 20% or more. As might be expected, agricultural products face the highest tariffs. Some dairy, rice, pork, and poultry products are assessed a 40% duty. Alcoholic beverages are subject to a 20-40% duty.

The United States is currently the main trading partner of El Salvador, with 46% of exports and 36% of imports in 2016. Under the CAFTA agreement, very few tariffs remain in effect. Rice and pork products are subject to import limitations when local production suffices to meet demand but are allowed into the country under a 40% duty when demand cannot be met locally. These and other tariffs will be phased out progressively by 2024 under CAFTA agreements.

At present, there are twelve private banks established in the country of which eleven are foreign-owned, while the state retains majority control of two smaller banks, including the national mortgage bank. There are also five small banks organized as cooperative entities. The banking system is subject to oversight by the Office of the Superintendent of the Financial System, which is charged with authorizing the operation of all financial institutions, ensuring compliance with all banking regulations, and preparing regular reports on the situation of the banking system. The work of the Office of the Superintendent is complemented by regular reporting by the Salvadoran Banking Association (ABANSA), a group that mostly represents the private banks (the government-controlled mortgage bank is also a member). Under law, the banks are required to report large or suspicious transactions to the Office of

Liberalization of foreign trade

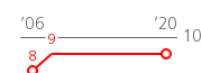
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Banking system

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the Superintendent and law officials. In addition, every bank is required to publish its audited financial statements every year.

The banking system has been performing without significant problems in recent years. The bank capital-to-assets ratio was 13.3% in 2017, down slightly from 13.5% in 2016. Non-performing loans stood at 1.92% of total loans in October 2018, as compared with 1.98% in October 2017. The distribution of outstanding loans as of October 2018 reflects the credit priorities of the economic agents of El Salvador: out of a total of \$12.5 billion in outstanding loans, 34.6% were used to finance consumption, 19.7% for housing purchases, 13.5% for commercial operations, and 10.4% for manufacturing, but only 3.8% were channeled toward agricultural activities.

8 | Monetary and fiscal stability

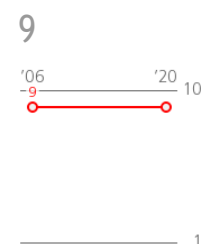
As of November 2000, the government of El Salvador authorized the U.S. dollar as legal tender and required that all bank accounts and government finances be reported in dollars. The local currency, the colón, was gradually removed from circulation but was not abolished; the country still has an official bi-monetary system and the vaults of the central bank are full of old colón bills. As long as they are kept there, monetary stability is thus assured and any inflationary tendencies would only be a reflection of inflation in the U.S. economy and the exchange rate of the U.S. dollar versus other currencies. In 2017, inflation in El Salvador was about 1%.

The central bank was not abolished when the dollar was introduced as legal tender but plays no significant role other than producing reports on trade, remittances, and fiscal policy. There is no serious demand for a return to the old currency. The Salvadoran economy is now so tightly intertwined with that of the United States due to emigration and remittances that a dollar-based monetary system makes the best sense.

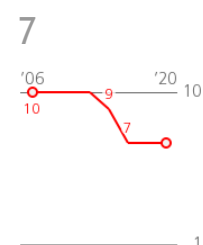
While dollarization has essentially prevented any significant inflationary pressures, it has created a new set of rules for government finance. In the first place, the government cannot issue or print money to cover fiscal deficits. Second, the central bank has lost its ability to provide liquidity for the banking system and loans to the government. And thirdly, local interest rates are determined largely by international interest rates on the dollar.

For the government, the above means that deficit financing of its operations can only occur through additional public debt obligations, albeit at manageable interest rates for the time being. In addition to the yearly regular budget and service of the government debt, the legislature must also approve any supplementary funding for the government if it runs out of monies before the end of the fiscal year. Both situations have involved intense political squabbling and deal making, as well as

Monetary stability



Fiscal stability



occasional delays of various months in the approval of the budget. In 2017, the Supreme Court even ruled that the budget for that year was unconstitutional because some of the budget lines were underfunded.

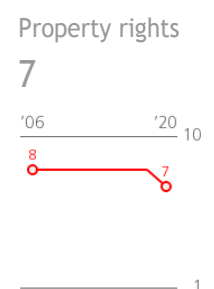
Since shortly after the end of the civil war, the government's gross debt as a percentage of GDP has risen without interruption: from a low point of 25.7% in 1998 to 61.5% in 2017. Since 2010, government consumption as a percentage of GDP has remained quite steady in the range of 15% to 16%. Fiscal deficit in term of net borrowing (World Bank data) reached 0.6% of GDP in 2017 after deficits of 0.2% (2016) and 1.3% (2015).

However, the alarming increase in public debt led to the passage of a law in December 2016 signed by all the political parties that places caps on the levels of public spending and government deficits as a proportion of projected GDP during the next ten years in order to meet debt payments. It also allows for a moderate increase in the tax burden. The IMF and the World Bank had already made it clear that the country needed to put its fiscal affairs in order if it wished to continue to receive support from them in the future. The budget presented by the government for 2019 was approved nearly unanimously in the legislature in December 2018 and includes bond issues equivalent to roughly 19% of outlays. It also sets aside a total of \$1.82 billion for debt obligations (\$1.09 billion for principal and \$0.73 billion for interest).

9 | Private Property

The right to property is enshrined in the constitution as one of the fundamental individual rights. However, it is also somewhat qualified by the stipulation (dating from the 1950s) that property must contribute to social well-being, something that has never been clearly defined. A more concrete limitation in the constitution limits private landed property to 245 hectares; there have been calls to eliminate this stipulation under the claim that large agribusiness investments are thereby discouraged. However, in an economy that is today largely urban-based, this is essentially a moot issue. Another constitutional provision that has had a direct bearing on investment is state control of water and mineral resources, which the state has the authority to turn over to private concerns under concession agreements. There have been few of these and not particularly satisfactory.

In general terms, however, the right to private property is not questioned or debated – even under nominally leftist governments during the last ten years – and procedures for its registration, transfer, and sale have been improved by the introduction of digital information technologies in the government's property registry office. Still, the International Property Rights Index (IPRI) for 2018 ranks El Salvador 89 (between Kazakhstan and Brunei) out of 125 countries.



One issue of ongoing concern to business interests is the lax enforcement of the protection of intellectual, artistic, and industrial property rights. El Salvador is a signatory to the principal international treaties in this regard and has adjusted its intellectual property laws and regulations as a member of the CAFTA free trade agreement, but there are still important shortcomings in terms of enforcement. The Business Software Alliance report for 2018 estimates that 52% of software in the Latin American region is unlicensed while in El Salvador the figure is 80%, a proportion that has remained unchanged since 2010.

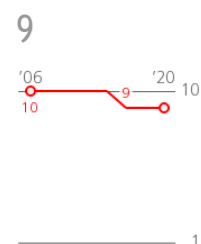
The Salvadoran economy operates essentially under private enterprise rules. Since the end of the civil war of the 1980s, the state has mostly retired from active participation as operator of productive enterprises. At present, the government's involvement in economic activities is limited to the management of the country's seaports (one operational and the other awaiting concession to a private operator) and the only international airport, as well as the national hydroelectric power authority. Both of these are run as autonomous public corporations, although their boards are named by the government.

Under the business-friendly governments of the ARENA party (1989-2009), private enterprise was well represented and supported: the property tax was abolished, most import and export duties were reduced or eliminated, government income began to rely principally on the value added tax, and free trade deals were negotiated with the United States, the European Union, Mexico and a number of Latin American countries. The accession of governments from the leftist FMLN party (2009-2019) did not change this situation in any appreciable way. Perhaps the most contentious issue with the private sector has been the creation of companies under FMLN direction with financing from the Venezuelan government of presidents Chávez and Maduro. These include a chain of service stations and distribution of petroleum products. Private sector organizations have also complained about the supposed intentions of the FMLN governments to nationalize private companies or impede their operation.

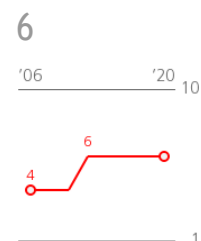
10 | Welfare Regime

Social safety nets exist but do not cover all risks for all strata of the population. The private pension fund scheme introduced in 1998 became increasingly untenable, because the government's subsidies during the transition from public to private pension funds have placed excessive pressures on state budgets and the sovereign debt that by 2013 had risen to a little over 58% of GDP. Economic growth also has been very sluggish to the detriment of employee contributions to the pension funds. A critical situation was reached in mid-2017 when the government was unable to meet its commitments to the retirement funds and required legislative action to enact a series of stopgap measures (increase in pension fund contributions by employees

Private enterprise



Social safety nets



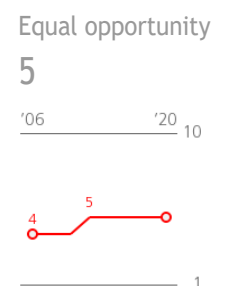
and employers; creation of a special fund to cover government pension commitments; continuation of current retirement ages, but subject to revision periodically). The reforms of the pension system have addressed its financial sustainability but are still a long way from providing comprehensive coverage: according to a 2017 ECLAC report, only one-third of the population between 15 to 64 years of age was enrolled in a pension fund scheme in 2015 and in rural areas it was only 16.4%.

The publicly administered medical insurance program covers all formally employed individuals. At the beginning of 2017, public and private sector employees covered by public medical insurance represented around 28% of the working age population. Those who are not covered – informal sector workers, domestic help, and unemployed individuals – must rely on private medical facilities or the government’s free public health clinics and hospitals, which are generally adequate for outpatient situations but usually entail considerable waiting periods for non-emergency hospital procedures. Remittance flows can provide some poorer families with sufficient resources to use better private medical facilities, which are mostly concentrated in the principal urban areas.

Overall, demographic and health statistics are quite positive. Life expectancy for women and men in 1990 was 73.6 and 64.9 years, respectively, and had climbed to 78.3 and 69.3 by 2017. Infant mortality under 1 year of age was 41.4 per 1,000 live births in 1990 and dropped to 10.7 in 2017. Nearly all births are now attended in clinical facilities and most expectant mothers receive prenatal care and advice. All of this has been possible in good measure due to increased spending on health services; in 2018, spending by the government on health was 11.1% of total government expenditure.

For many decades now, the government of El Salvador has expressed its commitment to expand opportunities for the new generations, mostly in terms of support for government-supported educational services. Educational achievement is linked to socioeconomic status; the poorer and more rural populations are at a disadvantage, especially when it comes to higher education where only one-third of students are enrolled in public low-cost institutions. After completing their studies, young people – even those with a university degree – have a hard time finding a job in an economy with sluggish growth and high youth unemployment.

Men still have better opportunities than women. The Global Gender Gap Report for 2018 produced by the World Economic Forum ranks El Salvador 87 out of 149 countries; women are mostly on a par with men in educational attainment and health but are significantly underrepresented in politics and economic participation and opportunities. The female labor force was about 42% of the total labor force in 2017. Discrimination against women is prohibited by law but is difficult to enforce in a society where male-dominated roles are still prevalent. Women’s reproductive rights



in the form of contraception are generally respected and available but abortion under any and all circumstances is still prohibited under the constitution.

Non-citizens who reside legally in the country have the same rights and obligations as citizens except participating in politics. Private businesses hire them freely but employment in government is mostly reserved for citizens. Some forms of discrimination are inevitable for recently arrived people in a context of high unemployment and competition for jobs.

Discrimination is particularly virulent against youth gang members, who are generally associated with homicidal violence, drug-trafficking, and extortion. Laws have been passed that essentially equate gang membership with terrorism and, thereby, make it difficult to engage in rehabilitation programs with youth at risk. Individuals who have been involved with gangs also find it difficult to seek employment if their personal history becomes known.

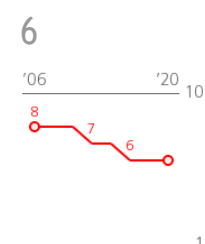
11 | Economic Performance

Despite a rather solid economic framework, El Salvador has the lowest economic growth rate of any Central American country. This situation is partly due to an excess of foreign currency seeking to purchase insufficient locally produced goods, and to the collapse of historic export products such as coffee and cotton. In addition, incipient light manufacturing has been severely affected by cheaper imports from abroad that now enter the country in large amounts. As a result, the economy has tilted heavily toward the service sector and relies on remittances to cover a chronic trade and current account deficit.

Since 2007, annual growth has mostly hovered around 2-2.5%, in comparison to the other Central American republics whose growth rates have generally been above 3%. GDP per capita growth was 1.8% in 2017 after 2.1% in 2016. Nevertheless, a GDP per capita (PPP) of \$8,006 in 2017 places the country in the middle-income category. Given that the economy is dollarized, inflation has been kept in check (1.0% in 2017). Imports enter the country mostly free of all duties and contributed to a negative current account balance of \$500 million in 2017. Therefore, remittances have played an essential role in maintaining the current economic model; since 2010, remittances have risen every year and in 2017 were about \$5 billion, equivalent to one-fifth of GDP. In comparison, net inflows of direct foreign investment are quite low: in 2016, they reached \$480 million and in 2017 declined to \$331 million.

Slow economic growth together with increased government commitments to spending on social programs and supporting pension fund reform have placed strains on the government's finances. In 2017, the government's gross debt rose for the fifth consecutive year to nearly 61.5% of GDP. The principal credit ratings agencies have also been downgrading El Salvador's credit worthiness over the last decade but in

Output strength



mid-2018 pronounced the country's credit outlook as "stable" in the wake of pension fund reform and commitments by political parties to address fiscal responsibility and solvency.

One aspect of economic policy to address fiscal imbalances that has not been seriously considered is tax reform. At present, the principal source of government revenue is the value added tax (38% of total government revenue in 2016), followed by income and capital gain taxes (34.6%). In 2016, tax revenue was 17.6% of GDP, which is somewhat higher than the rest of Central American countries.

12 | Sustainability

A Ministry of Environment and Natural Resources (MARN) has existed since the 1990s, but its size and budget are hardly in line with the country's environmental problems. There are environmental regulations and incentives, but they are not very consistent and often subordinate to other aspects that are more virulent on the country's political agenda.

With two-thirds of the population now living in urban areas, water resources have become the main object of environmental interest together with the impact that climate change might have on rainfall in the future. The current condition of water resources in the country can be summarized in terms of very high levels of agricultural and industrial contamination of surface waters and a rapid decline of water table levels as a result of over-exploitation. To this must be added the significant increase in waste from urban areas that ends up in streams and rivers; at present, no town or city in the country has sewage treatment plants in operation. A proposal for a water law has been debated over the last ten years. During 2018, the main point of contention has been the role of private interests in the use of water resources and the makeup of the proposed national administration to regulate their use.

In addition, the air of urban areas, especially that of the country's capital, San Salvador, is heavily polluted as a result of a dramatic increase in private motor vehicle ownership and non-existent emission controls. A poorly organized urban bus system plus concerns about personal security have convinced many people that a private vehicle is the only acceptable means of transportation.

The country is a signatory to international agreements to counter global warming but does little to reduce greenhouse gas emissions. There has been an increased reliance on fossil fuels for electrical generation since the country's only river with hydroelectric potential is already exploited to capacity. The country also generates electricity from geothermal sources; there is still potential for further expansion, but development costs are an issue. Solar power holds more promise as costs decline. The first of a number of solar power plants began operation in mid-2017; it is a joint local-foreign private investment and is currently the largest of its kind in Central America.

Environmental
policy

5

'06 '20 10



Education policy has been focused primarily on achieving maximum levels of enrollment, in response both to a widespread societal belief on the importance of education as a means of personal improvement and to international agreements that successive governments have signed. This has resulted in near total school coverage for elementary level students while enrollment at the secondary level is around 70%. However, these levels of enrollment come at a price: the school day for students at public schools is only 4-5 hours long because they operate on a two-shift system (morning and afternoon). Recent proposals for a full-day school schedule would require a dramatic increase in spending on teachers' salaries, not to mention investment in more classrooms. In the UN Education Index, El Salvador is ranked 74th (among 133 BTI countries considered), 18th in the region only ahead of Nicaragua, Guatemala, Honduras and Haiti.

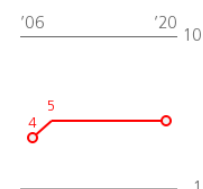
Government spending on education in recent years has been around 3.5% of GDP (3.2% in 2018) and represents between 15-20% of total government expenditure. Elementary education absorbs about 60% of public funding, while 32% is assigned to secondary education and 8% to higher education (universities and technical training schools). The result is that a majority of students at the secondary and university levels study at private institutions, which are beyond the means of many families. One bright spot is a high level of literacy: nearly 90% among the population over 15 years of age, with a youth literacy rate of nearly 98%.

The shortcomings of the current educational system have been underlined by chronically low average scores on achievement tests that are required of all students that finish their secondary education, as well as other tests that are applied selectively to students at the primary level. The tests also highlight the differences in learning outcomes between students at public and private schools. Demands for more spending on public education have been countered by other government priorities (such as public security and health) within a context of fiscal limitations.

The enrollment rate in higher education in 2016 was only 28%. The institutions that cater to higher education students are engaged mostly in teaching. Serious research is carried out in only a handful and is mostly in areas of the social sciences and the humanities. Overall investment in R&D (universities, business, government) is insignificant: according to UNESCO, gross expenditure on research and development in 2015 was around 0.1% of GDP.

Education policy /
R&D

5



Governance

I. Level of Difficulty

The civil war of the 1980s set the country back considerably in economic and social terms, but also contributed to change the country in fundamental ways: from a largely rural to a largely urban population, from high rates of population growth to a population that is essentially stable (as a result of emigration and a reduced fertility rate) and from an economy centered on agriculture to one on services.

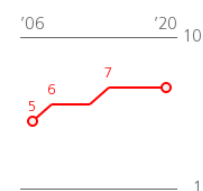
Emigration and remittances have allowed many families to escape extreme poverty. The World Bank estimates the poverty rate (based on a \$5.5 per day poverty line) declined from 39% in 2007 to 31% in 2016 while extreme poverty (based on a \$3.2 per day poverty line) declined from 15% to 10% over the same period. The downside of massive emigration – estimates of one-fourth to one-third of the population living abroad – is the breakup of families and many family units headed by single parents (mostly women). Children living with relatives that are not their parents can be at particular risk of becoming involved in gang-related violence and criminal activities. The education system or other social institutions have not been able to provide the skills and knowledge required by employment linked to technologically complex productive chains. As a result, most employment opportunities in the formal productive sector are for low-skilled workers in services and offshore production (maquila).

The country's infrastructure is generally good. The highway system is extensive and relatively well-maintained. The country's only airport is a modern hub for regional and international aviation, but the one functioning seaport is old and outdated; an expensive container port in the eastern part of the country has been idle for ten years due to unforeseen technical and concession difficulties.

As with all Central American countries, earthquakes are a constant threat. Building codes have become stricter and high-rise steel-based construction is more frequent. Flooding in low-lying coastal areas and landslides in the rest of the country during the wet season are common. The latest episodes of mosquito-born infectious diseases (Chikungunya, Zika) plus chronic dengue fever suggest that measures to combat mosquitos have been unsuccessful. On the other hand, cases of HIV/AIDS are relatively few and El Salvador is considered to be a low-risk country for HIV/AIDS. Societal constraints and rigidities are connected to the high concentration of wealth and power in the business class, which survived the civil war virtually unscathed.

Structural
constraints

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Civil society organizations (CSO) and social mobilization intensified after the end of the war in 1992, when the new democratic order provided openings for direct citizen participation in areas of social concern not covered by government institutions. Some of the more important CSOs became involved in advocacy around social issues (women's and LGBT rights), others focused on environmental issues (recycling, green energy, water management), and still others worked to maintain ties between towns and villages and expat Salvadoran communities abroad, as well as funding local development projects. With the passing of time, some CSOs closed down for lack of funding and declining concern or interest in specific issues, or CSO activists joined private enterprise or have become involved in politics directly.

CSOs currently active are involved in issues that political parties or the government have not addressed satisfactorily, such as gender equality, reproductive rights, corruption and administrative transparency, and water management, in addition to more general work in social and economic development at the local level, where faith-based organizations are particularly active.

The work of CSOs and civil society in general is not made any easier by the low levels of trust that Salvadorans have in other people: only 13% of respondents in El Salvador say that a majority of individuals can be trusted. Ironically, only 6% of respondents said that political parties could be trusted fully or somewhat. The impression is that of a population that seems to have difficulty in becoming directly involved to demand change or work to achieve it.

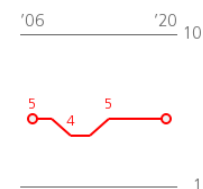
Since the end of the civil war in 1992, political differences have been settled through the ballot box, social debate, and participation in the management of government institutions. On the other hand, social violence – interpersonal conflict, gang warfare, criminal activities – is very intense, and the country has one of the highest homicide rates in the world.

All of the country's main political and social organizations are committed to working along legal lines to resolve social and economic inequalities and injustices. Of course, their approaches and strategies differ but none have argued for forceful measures to address these issues with the exception of how to deal with the violence associated with youth gangs, which most believe for now can only be overcome through repressive measures.

This is perhaps the greatest challenge that the country faces at present: how to reconcile a widespread commitment to peaceful change and development with seemingly high and intractable levels of violence. Some groups – religious, civic, political – have stressed the need to engage more directly with those who are involved in violence or at risk of doing so by implementing programs of prevention and rehabilitation, but the political will and economic resources are still lacking.

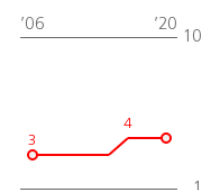
Civil society traditions

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Conflict intensity

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II. Governance Performance

14 | Steering Capability

During the review period, the government has been in the hands of the FMLN, a nominally left-wing political party that, nonetheless, has expressed its acceptance of private enterprise as the main generator of employment and economic growth. In the campaign for the February 2019 elections, none of the competing candidates have expressed policy proposals that diverge from this outlook other than claiming to be best positioned to jump start economic growth and improve employment opportunities for the population at large.

Apart from economic growth and employment, the FMLN governments have been committed to two main areas of policy. Firstly, they have stressed public investment in social services – education and health – but have fallen short of the levels of spending they hoped to achieve in these fields, due in large measure to constraints imposed by limited fiscal resources and political support. Secondly, they have had to address the issues of security and social violence, for which they convened a large group of institutions from civil society to discuss and agree upon policy and action in this area but again with limited resources at their disposal, especially since effective preventive measures and prevention programs are generally costly and long-term. Nor has there been sufficient political support to reform the tax code and increase revenue by reinstating a property tax.

A particular case is that of relations with the United States, where most Salvadoran migrants have settled; successive governments have requested that Washington look favorably on paths to eventual legal status and subsequent residency for undocumented Salvadorans in that country. All governments have also recognized the strategic relationship that binds El Salvador to the United States as its main trading partner and source of private foreign investment.

While all parties have denounced corruption, there is little agreement on how to proceed to combat it. Some have called for the presence of an international investigative body that has more leeway and independence (like the one in Guatemala), while others believe that strengthened prosecutors' offices are more effective.

Question
Score

Prioritization

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In a country that relies heavily on inputs from abroad to keep its economy going (remittances, foreign aid, loans), it is not easy for governments to achieve policy goals due to the vagaries of the international context. In addition, the achievement of government policy objectives is predicated on adequate levels of economic growth and fiscal resources, which, in the last decade have been lacking. Recent studies suggest that governments have usually overestimated revenue and therefore are likely to request additional funds during the course of the fiscal year to cover given budget lines. Another common practice has been to underestimate subsidies for energy and transport that the government is committed to providing. These practices reflect an insufficient capacity to plan spending, which in turn suggests confusion with regard to yearly policy goals and more long-term strategic objectives.

The FMLN government has been committed to three main areas of policy: social services (education, health), security (crime prevention, policing), and economic growth (exports, agriculture). In the field of social services, education has been its principal strategic objective, both in terms of coverage and quality. Nearly complete enrollment of students in primary education has been achieved; the number of new children entering the educational system has been dropping slightly every year but that is the result of demographic trends associated with a declining birth rate. The policy objective of full coverage of middle school enrollment is still pending, as are improvements in the quality of education, neither of which will be achieved until there is a substantial increase in spending on education.

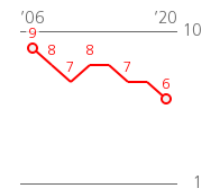
Public safety and prevention of violence are areas where government policy has fallen far short of its stated objectives. Even sending soldiers out into the streets to patrol with police officers has had no noticeable impact on homicide rates. The current government convened a national gathering of stakeholders from the state and civil society in 2014 to discuss and prepare a national strategy for prevention and control of violence; the document that emerged is fairly comprehensive but the costs involved, especially for many more violence prevention programs in urban areas, are far beyond the government's financial possibilities.

The most intractable problem that the government faces is the weak performance of the economy. Since the central bank no longer controls monetary policy and deficit spending is close to reaching borrowing limits, the government can do little on its own to stimulate economic growth. Its policy is, in fact, to follow the guidelines of the Washington consensus and provide some assistance to small and medium farmers in an attempt to stimulate the production of basic foodstuffs.

The structural constraints referred to above are further complicated by inadequate expertise and technical know-how in government offices. Ministerial appointments are politically determined, of course, but sometimes the individuals chosen have little or no experience on how policy is developed and implemented, not to mention knowledge of the area under their responsibility.

Implementation

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The government can react in innovative ways when considerable public or international pressure is brought to bear on it. A case in point are the recent investigations into corrupt practices involving three past presidents (1999-2014). As a result, the government has had to consider implementing institutional reforms that will prevent these situations from occurring again but there is no assurance that innovative measures and actions can effectively root out corruption and overcome impunity if there is no political will to back them up.

Most innovations take place in more routine, administrative procedures. A case in point is the finance ministry, which has introduced very comprehensive electronic accounting and monitoring procedures in order to streamline tax procedures. There has also been an effort to allow more access to government information regarding spending and programs under a newly enacted government transparency law and the creation of an office charged with assisting in the search for and access to information.

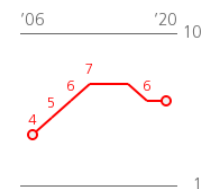
Policy differences and ideological divides do not help to facilitate the exchange of experiences from one government to another, in addition to personnel turnover in the absence of a permanent bureaucracy (civil service) in the upper echelons of government. In some cases, when the same party remains in office from one government to another there may be some continuity of ministers. Most ministers are given advice by external consultants and experts, both national and foreign, who are hired for the duration. International aid agencies and financial institutions generally include consultants to assist in the implementation of development projects they are involved in.

Government offices receive little input from universities and other institutions of higher learning, which in any case are mostly engaged in teaching and do very little research that can be used by the public sector. Some research and advocacy institutions are linked to political parties or interest groups and these do generate proposals for policy that end up on the desks of government ministers.

The overall impression is that governments are mostly concerned with routine activities inherited from previous administrations and practice little self-generated innovation. This is a serious problem for a country that faces many issues that require innovative solutions over the long term. A case in point is that of water resources, which must be addressed in terms of watershed management, as well as conservation, treatment, and distribution of water.

Policy learning

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15 | Resource Efficiency

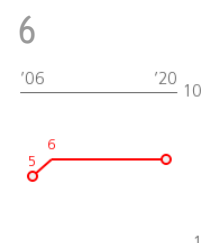
Every new government has increased the number of employees in the public sector. In 2000, there were approximately 123,400 employees in the public sector but by 2017, the number had grown to 161,400. Of these, about 29,000 were added on after 2009, when the FMLN took over the government, an increase that is in line with the party's commitment to a larger role for the public sector. On paper, appointment to public office is based on merit and competence but political connections weigh heavily; card-carrying membership in the party in power improves the chances of a person being hired. It is noticeable that the proportion of women and men in government employment is practically the same. Of the central government's spending of \$4,118 million in 2017, approximately 38% were for salaries. However, transfers of funds to other public institutions and offices (municipalities, for example) would increase public salary outlays somewhat.

The government's budgets have been unbalanced during the last decade, and especially so since 2011 when pension funds were unable to meet their obligations and required injections of public monies. In 2013, for example, the total budget deficit (including pension fund obligations) was equal to 4% of GDP but somewhat less (2.2% of GDP) without the support provided to pension funds. By 2017, the overall deficit had declined to 2.3% of GDP and to only 0.3% without including pension fund support. This reduction of the deficit has been achieved in part by cutbacks in signature government programs such as health and education. Still, there is concern about the government's ability to manage public debt during the foreseeable future. In 2017, total public debt stood at \$17.3 billion or 62% of GDP, and warnings have been issued by multilateral banks and the private sector about fiscal solvency at these levels of indebtedness.

Budget planning is undertaken by each ministry and other government departments and submitted to the office of the president, which then prepares a national budget that is submitted to the legislature for approval. The process is quite transparent and reported on extensively by the media. The ministry of finance also publishes regular reports on public spending that are available online. Budget expenditures are generally in agreement with the amounts authorized.

In general terms, public administration has improved over the years as a result especially of the introduction of computer technology and internet access. Any number of interactions between the citizenry and the state are now easier and quicker as administrative procedures are modernized.

Efficient use of assets



The government of El Salvador is heavily presidential in its operation. Ministers answer directly to the president's office and exercise little autonomy in achieving policy objectives. Most discussion revolves around the allocation of the budget in terms of overall policy objectives, i.e. social welfare, security, debt payment, economic growth. Also important is the process of legislative approval of yearly budgets, given that no party possesses an outright majority; as a result, approval of the budget involves reaching agreements with political parties in exchange for opportunities for participation in government employment and other concessions.

In recent years, when the government has decided to launch a large-scale policy initiative, it has convened a national commission (sometimes with hundreds in attendance) to provide inputs, support, and legitimacy for its proposed actions. This was the case with commissions that were convened to address the issues of social violence (homicides, youth gangs, organized crime) and education (funding, reform measures). In general terms, government policy over the last years has been coherent with its commitment to increase spending on social programs and to attempt to bring down the levels of violence.

As a rule, budgetary constraints – in the last few years more than ever before – place severe limits on what the government is able to do. Thus, it could be argued that all of its initiatives are trade-offs because an increase in spending (absolute or relative) in one area must be accompanied by reductions in others.

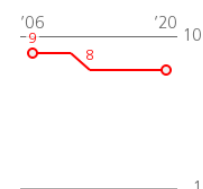
Corruption in government has become an important issue in the political debate as never before. There have always been cases of political favoritism and kickbacks in granting contracts for public works and other government-funded activities. A law passed in 2000 subjects all government contracts and acquisitions to specific procedures that attempt to prevent corrupt practices by making bidding procedures more transparent and establishing stiff fines for violators. However, there still have been cases of non-compliance with contract obligations and defaults that can be classified as corrupt practices.

Of a much more serious nature have been the accusations leveled against two former presidents (2004-2014; one is detained and the other fled the country) who set up sophisticated systems to allegedly defraud their own government and were able to divert hundreds of millions of dollars for private gain. It is obvious they did not act alone but set up an entire network of accomplices in their own offices, banks, and companies that transferred and received funds.

What is particularly worrisome is that the government's own audit office was unable to detect these massive diversions of funds. Its operations have long been considered more in terms of political expediency than of the national interest. Repeated calls for the establishment of a truly independent audit office have been ignored and contribute

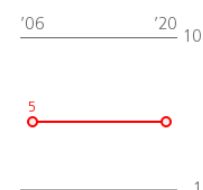
Policy coordination

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Anti-corruption policy

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to the belief that corrupt practices are in the interest of the party in power and of those waiting to share in it, regardless of ideological positions.

Information on campaign financing by political parties has become much more accessible. A political parties law approved in 2013 establishes the procedures and restrictions on monies that political parties can receive from both public and private sources and in 2018 the president's office on transparency issued a detailed report on financing by all political parties between 2006 and 2017. However, individual candidates for public office need not disclose their wealth, although they do need to present affidavits of compliance with their tax obligations.

16 | Consensus-Building

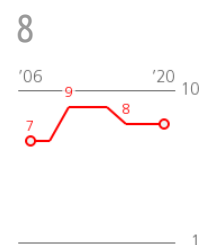
The end of civil war in 1992 was predicated on the establishment of a plural, democratic republic based on civic freedoms, fair and transparent election cycles, and the rule of law. In the 27 years that have transpired since then, El Salvador is the only Central American country (besides Costa Rica) that has an unblemished record of political stability and regular turnover of governments. This is the product of an agreement among political elites to respect electoral cycles and outcomes and the oversight exercised by the international community.

However, this consensus surrounding democracy and the rule of law is currently facing important tests to the extent that little or no progress is being made to address the problems that most concern the population: economic weakness, violence, and corruption. Occasional voices are heard for a return to the past (i.e. authoritarian politics) or, more frequently, a yearning for an inspired leader who can mobilize sufficient political and material resources to pull the country out of its predicament.

All political forces are committed to a free, socially responsible market economy and all are equally disconcerted by the intractable low levels of economic growth, especially in comparison to the rest of the Central American countries. The guidelines of liberal economic orthodoxy have been followed with few exceptions, but the country's economic growth and recovery since the 2008 to 2009 recession has been very modest.

Part of the problem is linked to sluggish export growth, which the IMF links to a high concentration of markets (in 2016, 48% of Salvadoran merchandise exports went to the United States and 39% to Central America) and a concentration of exports across products (46% of exports are textiles). Thus, a more diversified export base would create more opportunities for investment and generate more employment. A second problem that needs to be overcome is violence, which puts a damper on potential investment and places a heavy burden on the economy (security services, medical expenses, lost working hours etc.). But none of this has placed in doubt the overall acceptance of a market economy as the best way forward, albeit with varying emphasis on priorities and levels of government involvement.

Consensus on goals



Since the successful exclusion of the military from politics after the 1992 peace accords, there are no overt veto powers. The peace agreement was a compromise to end the civil war by establishing a democratic system of government that has remained largely unchanged since then. This, in itself, is evidence of the commitment by political elites and political followings to maintain and strengthen democracy.

Occasionally, there are expressions of disgust with deals between political parties that are associated with corrupt practices. Legislators are particularly subject to this kind of criticism since their branch of government is the most open to oversight by the media and its discussions are public. However, these can be interpreted as signs of a healthy democracy. As long as a severe economic crisis does not become a national emergency, the democratic system in place will be able to continue to function as normally as might be expected.

A few groups operating outside the law have recently become more active in response to the violence practiced by gangs. These “death squads” involved in “social cleansing” have been associated with on-duty police and army officers, but in fact are merely bypassing the democratic state rather than confronting it. Their actions have been condemned by the authorities, and some have been prosecuted by the attorney general’s office.

There are conflicts based on class that have repeatedly surfaced, but the government has been mostly successful in managing these confrontations. El Salvador has long been a country without ethnic cleavages that might have erupted in open conflict. In contrast to the 1932 peasant uprising with its clearly ethnic roots, the civil war of the 1980s was more about class differences linked to political and economic exclusion. The small size of the country has also impeded any sense of regional differentiation or geographic cleavage. Nor has the introduction and growth of Christian evangelical movements in the last half-century provoked religious conflict.

Today, political movements and parties are clearly heterogeneous in terms of the social makeup of their following; that is, they need to appeal to voters from all social strata if they wish to achieve some level of electoral success, especially if they are competing for national office. Thus, their political platforms are generally aimed at promoting a continuity of programs and policies. Furthermore, the differences that occur among them over certain policy issues are resolved through debates and consultations that are duly reported in the media, all of which contribute to a sense of shared responsibility for political outcomes and solutions.

Anti-democratic actors



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Cleavage / conflict management



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It is not common for the political leadership to openly consult with civil society actors. In some cases, when a particularly important policy initiative is proposed, the government has convened leaders of civil society to participate in devising policy and provide legitimacy, as has been the case with the national commissions on education and public safety in recent years. Part of this separation between political leadership and civil society can be explained by a lack of trust in outside opinion or, perhaps, a greater attention paid to public opinion polls with the next election cycle in mind. And then there is the obvious primacy of political parties within the political system itself, which have frequently been the object of criticism by civil society. It would seem, in fact, that civil society organizations and movements are most active precisely in those areas where government accomplishments are lacking.

The private sector is the most important and powerful interest group in the country and has its own well-funded research and advocacy institution (think tank) that produces abundant material on current issues and concerns. As such, it monitors the implementation of government policies, especially in the economic and fiscal areas, and proposes changes in legislation and public administration.

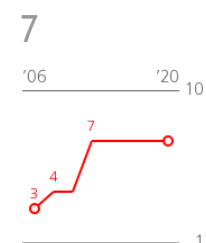
Other think tanks are less identified with specific interest groups and get their funding from a variety of sources, both national and international. Especially important are those involved in promoting alternative development policies, government accountability, and institutional transparency.

Some professional associations are also outspoken – physicians, economists, lawyers – and their voice is important given the role their members play in public institutions and policy implementation. Their pronouncements are frequently associated with working conditions (including remunerations) and support for or opposition to specific government policies.

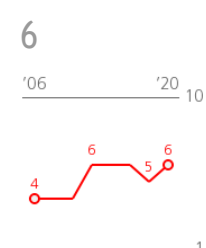
Up until 2016, it was not possible to prosecute individuals who participated in violations of human rights or mass killings during the civil war of the 1980s because of a blanket amnesty law approved in 1993. In addition, the government’s official position was always one of “forgive and forget.” The only trials against military officers involved in human rights violations were initiated in the United States and Spain.

However, in 2016, the Supreme Court of El Salvador ruled that the amnesty law was unconstitutional and that prosecutors should proceed with cases that had been held up for years. The legislature was also ordered to approve legislation that would assist public prosecutors in their work, but it has been dragging its feet because both former members of the military and of the guerrilla groups can now be taken to court. The attorney general’s office has made some progress: it reported in mid-2016 that it was investigating 160 cases of human rights violations during the war even though it had few resources for the task. One of the most dramatic outcomes of the Supreme Court ruling is the ongoing trial of military officers accused of ordering the massacre of

Civil society participation



Reconciliation



nearly 1,000 individuals, half of them children, in the village of El Mozote in 1981. News reporting and international pressure have finally placed the case before a judge.

Reconciliation is possible in part by comprehensive investigations, but little has been done to heal the damage done to the survivors, many of whom have not been able to achieve closure on the fate of relatives who are still unaccounted for, or to overcome lingering personal trauma. Perhaps it is near to impossible to achieve significant reconciliation after a civil war that took the lives of around 70,000 to 75,000 people.

17 | International Cooperation

Foreign aid monies spent on specific development projects are properly monitored and audited by both donors and the Salvadoran recipients. The United States is the principal provider of aid funds, having disbursed \$73 million in 2017 for a variety of development projects. The United States also provides assistance under the Millennium Challenge Corporation with matching funds from the Salvadoran government; the current program involves a total investment of \$365 million over five years that aims to reduce logistic bottlenecks (highways, border crossings), improve educational outcomes, and streamline procedures for investment.

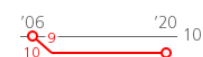
Another important donor is the European Union, which over the period 2014-2020 is allocating about 150 million euros in assistance, mostly for projects in the area of youth and social inclusion and private sector development. The Japanese International Cooperation Agency (JICA) is also a significant international donor to El Salvador in the fields of disease control, geothermal energy, and agricultural development.

All of these foreign aid programs are consistent with the wider goals of national development that successive governments have embraced, both from the right (ARENA) and the left (FMLN), insofar as they agree on basic priorities and commitments to market economic policies and to prepare future generations for the opportunities in a globalized economy. In addition, the government of El Salvador is a signatory to international agreements that establish priorities for development agendas in consultations between donors and recipients, including local civil society organizations. The government also is committed to measuring the efficacy of foreign aid to the country under a set of criteria that includes participation, inclusiveness, and decentralization (for example, assistance to local governments and CSOs).

Mention should be made of a specific contentious foreign aid program of the state-owned Venezuelan oil company, PDVSA, which has provided considerable financial assistance to a Salvadoran joint stock company, Alba Petróleos, set up in 2006 by 18 municipalities controlled by the FMLN. The executives of Alba Petróleos are FMLN activists who have been associated with corrupt practices and the political overtones of the company call into question its very survival, in addition to a drastic reduction in financial resources from Venezuela.

Effective use of support

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The government of El Salvador has generally been consistent in honoring its international commitments. However, a few incidents in recent times have tarnished its reputation. One involves a number of retired officers of the Salvadoran army who are being demanded to stand trial in Spanish courts for the murder of six Jesuits priests of Spanish descent in the last years of the civil war. The government of El Salvador dragged its feet on extradition and has not acted on the request, fearing adverse reactions within its own armed forces. Another case that has been criticized by human rights organizations is the government's use of excessive violence when responding to youth gangs, including reports of extrajudicial executions, torture, and denial of due process.

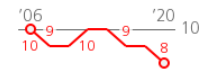
There has also been domestic and international criticism on the support for the Nicaraguan and Venezuelan regimes, and that diplomatic recognition of the Peoples' Republic of China (and cutting diplomatic ties with Taiwan) should have involved more consultations with other governments. President-elect Nayib Bukele has been even more categorical regarding the Nicaraguan and Venezuelan regimes, which he has described as "dictatorships."

Otherwise, the position of the government has been to comply with existing international agreements and engage credibly with international aid agencies, all of which are vital to a country that relies so much on a variety of external inputs – economic, social, political – to support its development efforts. For example, it has resolved a number of disputes with foreign firms by seeking international arbitration and complying with the decisions.

El Salvador is a signatory to most international treaties, conventions, and agreements, both regional and international, on social, economic, and environmental issues, but this does not mean that it always acts decisively on them. It has signed the Paris agreement on climate change as well as various conventions to prevent trade in pollutants and hazardous materials; however, it has not taken steps to reduce fossil fuel consumption or emissions. It is a signatory to the ILO core labor standards, but the numerous offshore production companies (maquilas) in the country continue to be singled out for not respecting their workers' right.

Credibility

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The government of El Salvador has had to tread carefully in a Central American region that recently has been particularly unstable, but within which the country is firmly integrated in terms of trade and investments. For example, a considerable proportion of the country's food comes from Guatemala and Nicaragua and Salvadoran companies have invested heavily in neighboring countries. Thus, the maintenance of trade and capital flows is vital as well as the movements of migratory workers, especially in times of coffee and sugar harvests. Relations with Mexico and the United States are also extremely important given the exodus of large numbers of Salvadorans through and to those countries in the last decades.

The commitment of successive governments to regional integration and cooperation is evident in the very location of the main offices of the Central American Integration System (SICA) in San Salvador just next to the foreign ministry. SICA is the main organization that provides support and expertise for continuing Central American integration, which now includes a regional development bank, a Central American parliament, and migratory agreements. Of more immediate interest are the relations that the FMLN government has cultivated with Venezuela, Nicaragua, and Cuba. However, given El Salvador's geo-political realities, the government had to remain on the sidelines as more powerful neighbors decide how to deal with the governments of those three countries.

Regional
cooperation

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Strategic Outlook

A number of structurally determined trends and problems will define the country's future. One is population growth, which has been slowing over the last 30 years as a result of declining fertility. Projections envision a stabilized population of around 6.4 million around mid-century with a smaller proportion of children but more senior citizens. These projections need to be incorporated into long-term national plans for education and health, as well as retirement funds, which have already shown how schemes that are not well thought out can lead to crisis.

A second is emigration, which for the last 30 years has been the solution that many individuals have resorted to in the absence of employment and education opportunities in the country. The remittances they send back have propped up the entire economy and helped many families escape extreme poverty. However, recent measures taken by the U.S. government to inhibit undocumented entry will most likely reduce migratory flows considerably; other measures aimed at undocumented populations already in the United States might also increase deportations. The Salvadoran government needs to prepare for intense engagement with United States authorities, underline its commitment to improve social and economic conditions within the country, and thus provide assurances that migratory flows will decrease significantly.

A third important problem is resource depletion, especially water. As the proportion and number of urban populations rise, the demand for water will increase and put even greater pressure on a resource already in short supply in the most water-stressed country in Central America. The country needs to invest urgently in sustainable water extraction and sewage treatment while also guaranteeing equitable water distribution by setting limits on consumption. The magnitude and complexity of this problem – social, political, economic – is evidenced by the inability so far of the legislature to produce a law to regulate water resources.

A fourth major problem is social violence as reflected in extremely high homicide rates, especially among urban youth and young adults. If the resources being spent today on security and policing could be employed in job-creation, education, and protection of the environment, the prospects for sustainable development would be greatly improved. Thus, it is absolutely critical that the country break out of this perverse cycle of self-perpetuating violence through a radical rethink of government policy that is currently based mostly on repressive measures.

The above problems must be addressed if the country is to become attractive for increased investment, without which significant economic growth and development will not happen. In addition, more needs to be spent on education, especially vocational and technical, so that future business investments will find a readily available pool of qualified workers. Policy toward agriculture also needs to be rethought; it is the country's only source of locally produced wealth and could generate much more employment, as well as lowering reliance on food imports and contributing to natural resources conservation.

For nearly 30 years now, democratic politics has allowed for compromise mostly around specific, immediate issues. But politicians tend to be short-sighted, looking ahead to the next election cycle. Entrepreneurs, too, in environments perceived as hostile are prone to invest with short-term returns in mind. Without a change in perspective among both of these, El Salvador will face a difficult future.