

BTI 2014 | El Salvador Country Report

Status Index	1-10	7.20	# 25 of 129	
Political Transformation	1-10	7.50	# 29 of 129	➔
Economic Transformation	1-10	6.89	# 31 of 129	➔
Management Index	1-10	6.84	# 11 of 129	

scale score rank trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	6.3	HDI	0.680	GDP p.c.	\$	7106.3
Pop. growth ¹	% p.a.	0.7	HDI rank of 187	107	Gini Index		48.3
Life expectancy	years	71.9	UN Education Index	0.634	Poverty ³	%	16.9
Urban population	%	65.2	Gender inequality ²	0.441	Aid per capita	\$	46.7

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

During the 2011 – 2012 period, political and economic measures oriented toward a socially responsible, free-market democracy were strengthened by the government of Mauricio Funes from the Farabundo Martí National Liberation Front (Frente Farabundo Martí para la Liberación Nacional, FMLN). One important difference between this administration and its predecessor has been the support accorded to social policies, in particular those seeking to improve educational opportunities for children from financially weak families. This has not only improved the educational system, which was previously in a precarious situation, but has also strengthened the government's popular standing.

At the same time, despite the appointment of former army officials to key roles in public security institutions, the truce between criminal gangs has offered an opportunity to strengthen the government's collaborative links with civil society organizations. The truce produced a drastic reduction of 60% of homicides during the period under review. In spite of the lack of transparency in negotiations, the process fostered a new climate for cooperation among political actors, civil society and even international organizations.

Nevertheless, the political will of the government is limited due to the lack of dynamism of the Salvadoran economy, which was severely affected by the financial crisis of 2009. Economic growth is slow and public debt levels remain high. The tax reform and the Law on the Regulation and Supervision of the Financial System passed by the current administration have been implemented to only a limited degree.

During the 2011 – 2012 period, the relationship between the legislative branch and the Supreme Court fell into serious political crisis. Even President Funes attempted to shirk required procedures regarding the implementation of the law on access to public information. Faced with this crisis, the Constitutional Court preserved the validity of democratic procedures. The acceptance of the

Constitutional Court's resolutions by the legislative branch and the president demonstrate the continued precedence given to democratic institutions in the country.

The legislative and municipal elections of March 2012 were held without major conflicts. The Salvadoran electoral democracy shows signs of stability and dynamism. The traditional de facto two-party system changed with the emergence of the Great Alliance for National Unity (Gran Alianza por la Unidad Nacional, GANA) as a third political force. This forced the two traditional parties, FMLN and Nationalist Republican Alliance (Partido Alianza Republicana Nacionalista, ARENA), to reconfigure their political programs with an eye to the presidential election of 2014.

International confidence in El Salvador's government increased due to the strengthening of social policies as well as the reduction in the homicide rate. The main concerns are the low levels of economic dynamism and the country's significant dependence on remittances. Nevertheless, the government has made important efforts in promoting public-private partnerships, particular in the areas of infrastructure and rural development.

History and Characteristics of Transformation

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

In a close contest, the FMLN and ARENA won the largest number of seats in the legislative elections of January 2009, respectively gaining 35 and 32 out of a total of 84 seats. The results of the electoral contest for the presidency in March of the same year were equally close, as FMLN candidate Mauricio Funes obtained 51.32% compared to ARENA candidate Rodrigo Ávila's

48.68%. The legislative election of March 2012 saw the emergence of GANA as a third political force in the country. The deep polarization and persistent distrust among political parties reflects a deep division within society along the ingrained socioeconomic cleavage of rich and poor, and has quite substantially hindered the development of a more democratic political culture.

Beginning in 1989, ARENA-led governments consistently pursued a process of economic transformation marked by privatization and liberalization. These policies were applied to the former public service sector from 1996 onward. The Salvadoran economy is today one of the most open in Latin America, with one of the most comprehensive and sound regulatory frameworks for market activities in Central America. The political leadership under President Funes has shown itself to be committed to preserving the privatization and liberalization achievements of previous governments, while increasing social spending in order to curb persistently high levels of poverty and socioeconomic inequality. These policy objectives are remarkable given the historical and regional context, and depending on their long-term effects, they might represent a new stage in El Salvador's progress toward a socially responsible free-market democracy. Previous governments lacked coherent anti-poverty policies, and decisions tended to benefit a small oligarchic business elite in particular.

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

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

The state's monopoly on the use of force extends throughout the entire territory of El Salvador and is not threatened by any major guerilla or paramilitary group. However, persistently high levels of crime continue to challenge the state's authority. According to statistics provided by the Salvadoran National Police, there were 4,308 murder victims in 2011. The trend of increased crime levels following the 1992 peace agreements continued through the first months of 2012. Until February 2012, there was an average of 13 homicides per day, with crime remaining highly concentrated in the metropolitan area of San Salvador. Scholars and policymakers have long cited as central drivers of Salvadoran crime the prevalence of gangs (maras), the impunity afforded to perpetrators of criminal acts, the country's geographic placement on Central America's drug transit route, poverty and socioeconomic inequalities.

Monopoly on the
use of force

6

Although President Mauricio Funes implemented a number of repressive policies aimed at curtailing crime, including the Law for the Proscription of Gangs, Cliques, Groupings, Associations and Organizations of a Criminal Nature, the criminal power of the maras continued to increase. In November 2011, President Funes dismissed his minister of public security, former guerrilla commandant Manuel Melgar, and appointed former General David Munguía Payés in his place. He also installed former General Francisco Ramón Salinas Rivera as director of the Civil National Police (PNC) and made a number of other key police appointments. These changes were highly criticized as representing an interruption of the strengthening of the civil authorities initiated after the peace agreements in 1992. The new minister of public security promised a drastic reduction in homicides during the first months of the year. In March 2012, a digital newspaper announced that negotiations between the two main maras in El Salvador were going on. These were supposedly being facilitated by a former guerrilla combatant, Raúl Mijango, and the military chaplain, Father Fabio Colindres, and involved talks between the top leaders of Mara 18 and Mara Salvatrucha, both of whom were in prison. Terms of the negotiations included a truce

between gangs in exchange for improvements in physical conditions within the prison system. Although the minister of public security initially denied any official participation by the government in these negotiations, he eventually was required to admit that it had in fact played a role.

The process was characterized by a lack of transparency. However, after initial agreements it was clear that homicide rates had drastically decreased. From a sustained average of 13 homicides per day from 2004, after five months of truce, homicide rates dropped to five per day in August and continued decreasing in the following months. This reduction increased confidence in the process and motivated other actors from civil society and the private sector to get involved. Even the Organization of American States (OAS) came to support the process, and other countries in Central America such as Honduras and Guatemala considered the feasibility of implementing it within their own territories. In November 2012, the Pastoral Initiative for Peace in El Salvador was created to support the pacification process initiated in March 2012. However, the truce between gangs has not eliminated the military presence in the streets of San Salvador and other departments. Likewise, the reduction in homicide rates has not translated into a strengthening of state capacities to control crime or a strengthening of the state's monopoly of the use of force.

According to the constitution, all Salvadorans over the age of 18 are considered citizens of the state. Nobody is formally denied aspects of citizenship on grounds of belonging to specific religious, political or ethnic groups, or because of gender or sexual orientation. De facto, however, members of certain groups, including women, homosexuals, and indigenous and disabled persons, continue to face socially embedded violations of their civic rights which frequently go unpunished or ignored by the state authorities. Although notable developments regarding the protection of civic rights for homosexuals and gender equality have taken place, changes remain formal and do not touch on the social basis of discrimination.

State identity
9

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

The constitution explicitly recognizes the juridical status of the Catholic Church, while establishing the right of all other churches to be officially acknowledged. Recent surveys by the University Institute of Public Opinion (IUDOP) at the Central American University (UCA) show growth in the number of evangelical church members and members of other religious groups. In 2011, 46% of the population identified themselves as Roman Catholics; 33% as evangelical; 2% as Jehovah's Witnesses and 1% as traditional Protestants.

No interference of
religious dogmas
10

Article 82 of the constitution prohibits persons who hold religious offices from affiliating with political parties and from running as electoral candidates for positions

of political power. Church and state are broadly separate, and religious dogmas in general have no noteworthy influence on politics or the law.

However, as the recent truce between gangs reveals, the participation of the Catholic Church has been fundamental in legitimizing political processes promoted by the government. In spite of the participation of Father Fabio Colíndres, the military chaplain responsible for liaising between the Catholic Church and the military, the process was not officially recognized by the high hierarchy of the Catholic Church. Even without addressing structural causes of violence, the Catholic Church has a long tradition of performing social work in the country. This has been the basis for the emergence of a number of civil society organizations that work on crime prevention.

The state's infrastructure and powers extend beyond maintaining law and order, but severe deficits regarding administrative structures remain, particularly in rural areas. This situation worsened during the last two years due to a reduction of public expenditure on infrastructure. Current public spending has been made with international funding, primarily from the Millennium Fund I and II and the Association Plan, both in partnership with the government of the United States. These programs are oriented toward strengthening public-private links in the areas of public infrastructure. In 2012, \$340 million in international funds were devoted to strengthening social programs as well as reconstruction and modernization programs in rural areas. These measures have focused on state infrastructure seriously damaged by natural disasters, and have sought to redress structural economic deficits. However, the Salvadoran economy's low levels of dynamism have resulted in an increase in public debt, reaching 55% of GDP in 2012. This has led to deficits in basic public service coverage as well as poor service quality.

Basic
administration
7

2 | Political Participation

The Constitution of the Republic of El Salvador and its electoral code establish that elections are to be free, direct and equal, with anonymous voting. Nine political parties participated in the legislative and municipal elections of 11 March 2012, which served to fill 84 legislative seats and elect 262 municipal councils. This election occurred during President Mauricio Funes' third year in office. A number of changes in electoral mechanisms were implemented in these elections; for example, participation by independent candidates with no affiliation to any Salvadoran political party was allowed, and ballots included each legislative candidate's name and picture, as well as each party's flag. Three main political parties dominated the legislative election. ARENA, the conservative right-wing party, obtained 33 legislative seats; the FMLN won 31, while GANA finished with 11. Neither ARENA nor the FMLN obtained a majority in the legislative election, forcing each party to form alliances with smaller parties, particularly with the right-wing GANA. The remaining nine legislative seats are distributed among four political parties. Among the 262

Free and fair
elections
8

municipalities, ARENA won 116 and FMLN 85; Concertación Nacional finished with 23 and GANA 16. The remaining 10 municipalities are distributed among three different coalitions. Voter turnout for this election encompassed 51.62% of registered voters, which is close to the average of the last three legislative and municipal elections (1994, 2006 and 2009). According to the OAS, the election was held in a peaceful manner, with some technical problems. For instance, some polls opened late, and problems with voting stands in some cases failed to guarantee the confidentiality of voting. A number of potential issues remain, such as ensuring an end to campaigning during the election itself, the need for proper regulation guaranteeing full access by women to public elections and a need for improved transparency within political party financing. Out-of-country voting was approved in January 2013, after more than ten years of discussion by the Legislative Assembly.

Since the successful reform of the military and the police forces in the 1990s took place, there have been no significant veto powers or political enclaves constraining elected rulers in their effective power to govern. However, business oligarchies and foreign-based multinational enterprises continue to exercise political influence, mainly because political competition in El Salvador is privately financed. Mauricio Funes has been supported by a wide range of private entrepreneurs who influence political decisions seeking to secure economic privileges for their investments. Nevertheless, this political tension does not represent a threat to democratic stability in the country.

Effective power to govern

9

The constitution establishes the right for independent political and civic groups to associate and assemble freely in accordance with the law. This right is generally respected and numerous civil society groups operate in El Salvador without disturbance by the state authorities. There are currently no limitations on or persecution of any social group or organization in the country. Unions and other civil and social organizations have demonstrated in favor of wage increases without facing police repression or intimidation. However, diverse civil organizations have denounced the application of counterterrorism regulations to social protests, which they consider a threat to civil rights.

Association / assembly rights

8

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

Freedom of expression

8

El Salvador remains one of the best-performing Central American countries in terms of media freedom. In Reporters Without Borders' latest World Press Freedom Index, El Salvador is ranked 37th out of 179 countries. This represents a significant improvement as compared to 2011, when the country was ranked 51st with a score

of 15.3. A law mandating free access to public information has been passed. However, during the review period, Mauricio Funes attempted to change regulations regarding access to the executive's political information. At the same time, he sought to manipulate the selection of members of the Institute of Public Information Access, a body in the process of formation. In December 2012, the Constitutional Court deemed changes made by Funes to be unconstitutional.

Investigative journalists live under continuous threat by criminal groups and public officials involved in criminal acts. The editor of El Faro, a digital newspaper, denounced intimidation against journalists who have investigated El Cartel de Taxis, a criminal organization that includes public officials. Minister of Security David Munguía Payés threatened El Faro indirectly after the publication of information on negotiations between gangs that were secretly promoted by the government. The minister stated that gang members were upset at the revelation of the negotiations, and that El Faro employees' safety was consequently at risk. However, the situation did not worsen, and El Faro and other media companies continued to exercise their freedom of speech.

3 | Rule of Law

The separation of powers in El Salvador is formally recognized, but continues to be constrained in practice due to persistent structural deficits in the judiciary branch and attempts by the executive branch to influence court decisions. Inefficiency, corruption and insufficient funds undermine the strength of the judiciary branch, and frequently lead to a lack of appropriate legal consequences for people who belong to economically or politically influential networks. These networks have become stronger over time due to the political parties' securing of key positions in the judiciary branch. The executive and legislative branches are both de jure and de facto institutionally differentiated. However, the legislative branch suffers from inefficiency, a lack of funds and the country's historical clientelism.

Separation of
powers
7

The Funes government overcame a constitutional crisis in August 2012 that had pitted the Legislative Assembly and the president against the Supreme Court over the issue of judicial appointments. Although this crisis increased political instability, it was overcome through the use of democratic procedures. The separation of powers was never threatened by this crisis.

The judiciary's independence is constitutionally recognized, but persistent dysfunctions impair its impartiality in practice. Serious problems remain in terms of reaching the entire country and of promoting access to justice in rural areas. Inefficiency and corruption within El Salvador's justice system are widespread and contribute to a high level of impunity. Judicial delays, inadequate government funding for the National Police, and the failure to remove underqualified and corrupt

Independent
judiciary
6

judges despite hundreds of complaints from private citizens continue to undermine the public's respect for the justice system. According to a 2012 Instituto Universitario de Opinión Pública (IUDOP) survey, the Supreme Court was accorded the lowest level of citizen confidence among major political institutions.

The judiciary's independence has been threatened by attempts on the part of the executive and the legislative branches to manipulate the election of Supreme Court members and interfere with its decision-making mechanisms, as well as episodes in which rulings have been ignored. The Legislative Assembly issued a decree in June 2011, supported primarily by ARENA and FMLN deputies, obligating unanimity in Constitutional Court decisions regarding legal measures' constitutionality. President Funes signed the decree just hours after its legislative passage. However, the Constitutional Court and civil society organizations subsequently rejected the measure. In 2012, the legislative branch attempted to manipulate the election of members for the Supreme Court, as well as the choice for general prosecutor, by holding the election for the court positions before its scheduled date. Although the Constitutional Court declared those actions to be unconstitutional and ordered their immediate annulment, the Legislative Assembly did not obey, an act considered to be a breach of the separation of powers. The problems between the Constitutional Court and the legislative branch stem back to 2010. That year, the Constitutional Court ruled that political parties showed an impermissible lack of transparency with regard to internal election mechanisms. President Funes subsequently showed more support for the political parties than for the Constitutional Court. The institutional and political crisis of 2012 was solved primarily because the political parties moved on to an electoral footing.

Although El Salvador has low levels of corruption in comparison with other Latin American countries, numerous reports have cited persistent patterns of both petty and grand corruption – often linked to organized drug trade – within state agencies, in particular within the judiciary branch and the National Police. The country lacks the institutional capacities to implement efficient internal controls or to prosecute corrupt public officials. The Prosecution Office has limited resources for dealing either with the high crime levels or the prosecution of corrupt public officials. In addition, the Prosecution Office has limited political independence. In April 2012, the Legislative Assembly elected a new general prosecutor, violating the regulation that gives the legislature the power to elect a general prosecutor only a single time during its term. The same Assembly had already elected the previous general prosecutor in 2009. The Constitutional Court annulled the election as unconstitutional. The election of the general prosecutor has been highly politicized, and shows the influence of political parties in the Prosecution Office. Political dependency produces a lack of transparency and hampers the prosecution of corrupt public officials.

Prosecution of
office abuse

6

Civil rights are constitutionally guaranteed. However, the civil rights of certain societal groups in El Salvador have been violated over protracted periods of time, with state authorities failing to hold perpetrators sufficiently accountable. Discrimination against women, homosexuals, indigenous people and persons with disabilities, as well as a stigmatization of youth as the main security threat, remained widespread throughout 2011 and 2012. Due to inefficiency and corruption within the judiciary, civil rights violations have been dealt with inadequately or not at all. Problems with access to justice and due process constitute one of the most important human rights violations in the country. Consequently, many victims believe their cases unlikely to be prosecuted, and rarely sue their perpetrators. Due to the paucity of criminal investigations, there is little information about the actual perpetrators of civil rights violations.

Civil rights
6

4 | Stability of Democratic Institutions

Democratic institutions in El Salvador formally fulfill their functions, but inefficiency, corruption and a lack of administrative resources continue to constrain the efficacy of their performance. Between 2011 and 2012, the legislative branch, with the indirect support of President Funes, attempted to disrupt democratic procedures regarding the election of members of the Supreme Court and the Prosecution Office. Political parties sought to expand their political influence over judicial decision-making. This generated a political crisis that had international consequences for the country, especially with regard to relations with the United States and other Central American governments. The Constitutional Court was at the center of the crisis, and fought to protect democratic and constitutional procedures. This crisis showed the vulnerability of democratic institutions when confronted with political parties' interests. Democratic procedures have not achieved political independence and have not been fully institutionalized. Power struggles in the legislative branch determine the allocation of resources to other institutions, including the judiciary. In addition, the appointment of key public officials depends upon political negotiations inside the legislature. This is also true of the allocation of resources for municipalities. The political crisis of 2011 and 2012 represented an important regression regarding democratic procedures, as the concentration of power within the legislature reduces the efficiency of other branches.

Performance of
democratic
institutions
7

All relevant actors formally accept democratic institutions and procedures. However, multiple factors undermine the legitimacy of democratic institutions. The political crisis that embroiled the legislative and the judiciary branches in 2011 and 2012 showed that the veto power held by political parties can be abused. This had particularly negative consequences for the Prosecution Office. This office was already delegitimized due to its criminal investigation incapacities. General Prosecutor Ástor Escalante had been criticized due to a lack of transparency in

Commitment to
democratic
institutions
9

investigating the death of prominent ARENA politician Adolfo Tórrez. In addition, civil organizations denounced a lack of efficiency in the institution due to the general prosecutor's political preferences in selecting which cases would be investigated.

The appointment of former army officers in key security institutions such as the police, intelligence services and the Ministry of Security has raised concerns about the potential veto power held by army officers and the political dependence of civil authorities on the armed forces. The lack of transparency surrounding the recent truce between gangs demonstrated security institutions' low levels of legitimacy regarding security policies. The use of the Catholic Church to legitimize the negotiation process, as well as the secrecy of the process overall, reflected the low levels of acceptance and confidence accorded to security institutions by other political actors.

5 | Political and Social Integration

The de facto two-party system in El Salvador changed after the municipal and legislative elections of March 2012, in which the GANA became a third political force in the country. Although the two main political parties continue to hold the majority of legislative seats and municipalities, El Salvador's party system is showing tendencies toward diversification. ARENA, the conservative right-wing party, obtained 33 legislative seats in 2011. Many observers have noted that the party is going through an institutional crisis that could affect its performance in the presidential elections of 2014. The FMLN obtained 31 legislative seats, four seats less than in the previous legislative term. GANA obtained 11 legislative seats, a significant result in its first electoral showing. Neither ARENA nor the FMLN have a legislative majority, a fact forcing both parties to form alliances with smaller parties, in particular with the right-wing GANA. The other nine legislative seats are distributed among four political parties. Among the 262 municipalities, ARENA won 116 and FMLN 85, while Concertación Nacional finished with 23 and GANA 16. The remaining 10 municipalities are distributed among three coalitions. FMLN showed the most change in its results, as it not only lost legislative seats but also municipalities, including several San Salvador municipalities traditionally governed by the FMLN (Apopa, Ilopango, San Martín, Soyapango, Mejicanos, Ayutuxtepeque y Santo Tomás). In addition, the FMLN's vote total was approximately 150,000 votes lower than in the legislative and municipal elections of 2009.

The results of the 2011 election may have been influenced by controversial 2010 Supreme Court decisions that changed the customary use of closed lists for legislative elections, and overturned the ban on independent candidates as being unconstitutional.

The confrontation between the legislative branch and the Supreme Court was overtaken by the initiation of pre-electoral activities heralding the presidential

Party system
8

election of 2014. The FMLN designated former guerrilla commandant and current Vice-President and Minister of Education Salvador Sánchez Cerén as presidential candidate for the 2014 election. Oscar Ortiz, who has been elected five times as mayor of Santa Tecla, was selected as his vice-presidential candidate. On the one hand, this combination of candidates shows the tendency to appeal to the FMLN's historic roots, as Cerén is one of the oldest active guerrilla leaders inside the party. The party is seeking to recover voter confidence by exploiting the good performance of the Ministry of Education, which was directed by Cerén under Funes' administration. On the other hand, Ortiz' nomination as the vice-presidential candidate was considered an attempt to incorporate moderate figures into the party.

ARENA has designated Norman Quijano, who has twice been elected mayor of San Salvador, as its 2014 presidential candidate. Quijano has a long history in ARENA, and during the last few years has drawn considerable political support among voters and party members due to his work in San Salvador.

Although not yet official as of the time of writing, it appeared highly likely that the presidential candidate for the GANA-PDC-PCN coalition would be former president Antonio Saca.

The Salvadoran political party system remains one of the most stable in Central America. The emergence of a new political force does not necessarily mean the system is fragmenting, and indeed might reduce the polarization inherited from the civil war.

Numerous interest groups and associations with diverse societal agendas operate in El Salvador, and generally coexist peacefully despite competing programs. Salvadoran civil society has been growing significantly in strength and has become increasingly close knit in recent years. Groups deal with a wide range of topics including political accountability, environmental campaigns, drug consumption prevention, violence and crime prevention. Violence- and crime-prevention organizations are the most active and socially rooted organizations in the country. They work with state institutions, and are currently implementing programs aimed at strengthening the recent truce between gangs. Indeed, governmental authorities have an ideal partner in Salvadoran civil society in implementing public policies. The existence of a large network of Hometown Associations made up by migrants in the United States is also important. The economic importance of remittances in the Salvadoran economy gives these associations political prerogatives enabling them to mediate local interests with state authorities.

Interest groups

7

Broader community organizations remain weak, as do unions and other labor organizations. However, business associations such as the National Association of Private Enterprise (ANEP) have a high level of political influence. This association has traditionally enjoyed veto power over public decisions. The Funes government

has not been an exception in this regard, since much economic and financial policy (including a tax reform) has been negotiated in advance with business associations so as not to affect the economic status quo.

A survey by Latinobarómetro shows that support for democracy decreased by 4% in El Salvador between 2010 and 2011. In addition, the Latin American Public Opinion Project found that levels of tolerance for extending the vote to critics of the regime in El Salvador are among Latin America's lowest, exceeded only by Peru, Honduras and Haiti. Other studies show that 45% of the population would accept other regimes (including a military-led government) if insecurity and economic problems were to persist. However, recent studies by the Instituto Universitario de Opinión Pública (IUDOP) show that 81% of interviewees consider electoral democracy to be the best mechanism for electing political authorities. Only 16% agrees that a strong unelected leader would be better at solving the nation's problems.

Approval of
democracy
7

Public confidence in democratic institutions remains low in El Salvador. According to a study by IUDOP, political parties are ranked at the bottom with only 6.7% of interviewees expressing confidence in their activities. At 7%, the Legislative Assembly is accorded marginally higher levels of confidence, while the Supreme Court polls at 7.4%. The Electoral Supreme Court has a confidence rating of 11.9%, and the central government (the executive branch) a 23% rating. The Catholic and Evangelical churches and the armed forces are accorded the highest levels of confidence in the country. In spite of financial and political crises, the Mauricio Funes' administration received the best rating of his presidential period in the IUDOP's 2012 survey, with a score of 6.74 out of a possible 10. In general, democratic norms have remained strong in El Salvador during the period under review, and there have been no political protests calling the constitutional framework into question.

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

Social capital
6

Financial crises, crime and insecurity have undermined interpersonal trust. According to the 2010 LAPOP survey, 21.9% of the population considered people in their neighborhood to be very reliable, a significant decrease compared with 35.5% in 2008. The most important examples of continued social organization are violence-prevention organizations and the large number of migrant organizations abroad. According to Inter-American Dialogue, more than 200 Hometown Associations of

Salvadoran migrants are in existence, most of these operating in the United States. Although these organizations seek to influence public opinion and politics, the scope of their impact on social life remains unclear.

II. Economic Transformation

6 | Level of Socioeconomic Development

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

According to data provided by the Economic Commission for Latin America and the Caribbean (ECLAC), 46% of Salvadorans lived in poverty and 16% lived in a condition of indigence in 2012. These figures represent a decline from the 48.9% in poverty and 22.1% in indigence reported in 2011. Official sources present different data. The Ministry of Economy of El Salvador states that in 2011, 40.6% of the population lived in poverty, of which 35.4% were urban households and 50.2% rural households.

The reduction in poverty is considered an effect of the increase in public spending on social policies during the last two years. According to ECLAC, spending on public assistance programs increased from 2.9% of GDP in 1991 to 13% in 2010. However, there are important differences across the country concerning school enrollment and labor force participation. For example, the labor force participation rate in comparatively poor areas is 27%, as compared to 67% in wealthier areas. In 2011, the overall unemployment rate was 7.3%. However, this was an official rate that did not take underemployment into consideration.

Remittances contribute to the income of Salvadoran households and play an important role in reducing poverty and socioeconomic hardships. Data provided by the Central Reserve Bank of El Salvador indicate that the quantity of remittances has fluctuated in recent years, increasing from \$3.7 billion in 2007 to \$3.8 billion in 2008, falling to \$3.5 billion in 2009 and slightly recovering to \$3.7 billion in 2011, the latter of which sums represented 16% of GDP.

In 2011, El Salvador ranked 105th out of 187 countries on the Human Development Index (HDI), with an HDI value of 0.674. This makes it a country of medium human development. The Gini coefficient of 46.9 (reference period 2000 – 2010) reflects the

Question
Score

Socioeconomic
barriers
4

fact that ingrained socioeconomic inequalities pose a serious challenge to state authorities. Likewise, there are persistent problems of social exclusion, with women and indigenous people facing discrimination in terms of economic opportunities, especially in terms of hiring and salaries. The HDI of Latin America and the Caribbean as a region increased from 0.582 in 1980 to 0.731 in 2011, placing El Salvador below the regional average.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	20661.0	21418.3	23139.0	23864.4
GDP growth	%	-3.1	1.4	2.2	1.9
Inflation (CPI)	%	1.1	1.2	5.1	1.7
Unemployment	%	7.3	7.0	-	-
Foreign direct investment	% of GDP	1.8	1.2	1.1	-
Export growth	%	-16.0	11.6	9.3	2.8
Import growth	%	-24.8	10.4	10.8	0.8
Current account balance	\$ M	-312.2	-569.7	-1136.8	-1257.4
Public debt	% of GDP	48.2	49.7	50.1	52.2
External debt	\$ M	10368.2	11328.5	11994.9	-
Total debt service	\$ M	1178.0	1082.4	1240.9	-
Cash surplus or deficit	% of GDP	-5.1	-2.7	-2.2	-
Tax revenue	% of GDP	12.8	13.6	13.5	-
Government consumption	% of GDP	10.6	10.7	11.1	11.2
Public expnd. on edu.	% of GDP	-	3.2	3.4	-
Public expnd. on health	% of GDP	4.1	4.2	4.3	-
R&D expenditure	% of GDP	0.08	-	-	-
Military expenditure	% of GDP	1.0	1.1	1.1	1.0

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

The rules for market competition are well established and guaranteed by the Salvadoran state, with the fundamentals of the country's competition policy laid down in its constitution. While Article 102 guarantees economic freedom and Article 110 bans monopolistic practices, Article 101 requires the state to promote economic and social development by means such as increasing productivity and defending consumer interests.

Mauricio Funes' administration has been consistent in promoting a free market system that combines market-based competition with increased social spending, seeking to promote economic growth and development while curbing poverty and socioeconomic inequalities. The Fomilenio program, financed by the United States and implemented by El Salvador's government, sought to promote private-sector investment in order to strengthen the country's economy and markets.

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

According to reports by the U.S. Department of Commerce and U.S. Department of State, there are generally no controls on prices (apart from liquefied propane gas, public transportation rates and energy). There are no restrictions on using or transferring profits. According to the World Bank's Doing Business Reports 2010 and 2011, El Salvador's total tax rate (in terms of percent of profit) was among Latin America's lowest in 2009 and 2010. El Salvador remains listed as one of the five most economically free countries in the South and Central America/Caribbean region according to the 2010 and 2011 editions of the Heritage Index of Economic Freedom, with an overall score well above the world average. According to the International Labor Organization, more than 1 million people were in informal employment in non-agricultural activities in 2009, 72.5% of which were female. The informal sector in El Salvador is an important part of the local economy. Due to the size of the informal sector, there have been repeated attempts to regulate and tax it. In December 2011, a tax reform was passed that, among other aspects, sought to improve taxation of the informal sector.

However, it should be noted that despite the establishment of a generally appropriate and efficient institutional economic policy framework, domestic and international observers identify high crime rates, deficiencies in the Salvadoran judicial system

Market-based
competition
9

and comparatively low workforce education levels as key hindrances to market-based competition, as they constrain business activities and deter investments.

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

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

Despite these strengths, international and domestic actors contend that a few business oligarchs continue to exercise disproportionate influence over the Salvadoran economy, and that the dominant position of some companies, especially in the energy market, has hindered competition. This generates a negative investment environment for other emergent economic sectors. According to the Fundación Salvadoreña para el Desarrollo Económico y Social (FUSADES), entrepreneurs' perception of El Salvador's investment climate remains negative due to high levels of crime as well as institutional and political factors. The often slow and uncertain process of judicial review of the superintendency's decisions, alongside this body's need for greater funding, contributes to problems in combating the monopolistic practices of El Salvador's oligarchs. In 2012, the World Bank noted the lack of transparency within the country's private sector, an obstacle to the development of small businesses and in efforts to strengthen oversight institutions. In the World Bank's Doing Business 2012 report, El Salvador's private sector received a score of 3 out of 10 and was ranked 169th out of 185 countries worldwide regarding transparency.

Anti-monopoly
policy
7

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

Liberalization of
foreign trade
10

Trade statistics provided by the WTO indicate that El Salvador conducts most of its trade with partners with which it has preferential agreements. This was extended with the recent approval of the association agreement between the European Union and Central America, which was negotiated between 2007 and 2010. El Salvador's export earnings rose to \$5.3 billion in 2011, from \$4.5 billion in 2010. Imports totaled \$10.1 billion in 2011, up from \$8.5 billion in 2010, according to the central bank. Exports from the maquila (off-shore assembly for re-export) sector represented nearly 22.6% of export value in 2011, totaling \$1.2 billion (up from \$1.1 billion in 2010).

The annual growth rate in goods and services exports fell to 9.3% from 11.6% in 2010. The annual growth rate in goods and services imports decreased slightly from 11.4% in 2010 to 10.9% in 2011. Foreign direct investment increased from \$78 million in 2010 to approximately \$274 million in 2011, rising from 0.4% to 1.2% of GDP.

International observers commend the openness of El Salvador's trade and investment regime, as well as the consistency with which both current and previous governments have followed their trade liberalization strategies. El Salvador is a member of the WTO, an active participant in the Summit of the Americas process, and a signatory of free trade arrangements with Honduras, Taiwan, Mexico and Chile, among others. The government has actively pursued additional free trade agreements, as for instance between Central America and Peru, for which a first round of negotiations was completed in November 2010.

The Salvadoran banking system remains one of the most advanced and stable in the region, despite some weaknesses in the arrangements governing systemic liquidity. Two of the 12 banks operating in the country are state-owned. Foreign bank presence in El Salvador is, along with Mexico, among the strongest in Latin America, with at least 95% of banking system assets under foreign ownership in 2009. In comparison with other Central American countries, El Salvador's economy has had a slow recovery from the effects of the global financial crisis. However, liquidity and capital ratios remain comparatively high in the country's banking system. Banking problems are related to an overall lack of economic dynamism rather than banking system

Banking system
9

structure. The banking system's liquidity ratio fell at the end of 2011 to 36.99, as compared to 41.99 at the end of 2010.

As the IMF has pointed out, weaknesses in the arrangements for systemic liquidity include legal provisions which prevent the central bank from undertaking lender-of-last-resort functions, as well as the lack of a comprehensive policy to provide liquidity support for the financial system in situations of stress.

According to international observers, the Salvadoran banking system is sound and is in general well managed and supervised. El Salvador is officially dollarized, and has no domestic currency or monetary policy. Foreign banks are afforded national treatment under the 1999 Banking Law and amendments made in 2002. This law *inter alia* helped the Salvadoran banking system to achieve international standards, strengthened supervisory authorities, and provided for more transparency and security in the course of customers' and banks' operations. Foreign investors may obtain credit within the local financial market under the same conditions as local investors, with accounting systems being generally consistent with international norms. Oversight in the financial system is provided by the Superintendency of the Financial System. Interest rates are set by the market and have decreased significantly since dollarization. The organization, operation and activities of microfinance institutions are regulated by the Non-Bank Financial Intermediaries Law. According to the Law Against the Laundering of Money and Assets, financial institutions are required to report suspicious transactions to the office of the Attorney General and the Superintendency of the Financial System.

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

8 | Currency and Price Stability

The passage of the Monetary Integration Law in November 2000 established the U.S. dollar as legal tender in El Salvador alongside the colon, with a fixed exchange rate of 8.75 colones per U.S. dollar starting on 1 January 2001. The power of the Central Reserve Bank of El Salvador to issue new colones or coins ceased on the same date. The Monetary Integration Law also established the U.S. dollar as the unit of account for the financial system, and granted the freedom to contract in any currency. The U.S. dollar now circulates freely and is valid for all transactions throughout the country. According to the IMF, the dollarization of El Salvador's economy – although preventing authorities from using monetary or exchange rate policy to mitigate

Anti-inflation /
forex policy

9

external shocks – has played a key role in preserving macroeconomic stability. President Funes has publicly denied rumors that his government might try to de-dollarize or reintroduce the colon as the national currency. Inflation rates increased from 2.1% in 2010 to 5.1% in 2011, but decreased again during 2012 to 0.8%. FUSADES explains these low rates as resulting from lower prices for fuels and foodstuffs. The Central Reserve Bank of El Salvador is an autonomous entity within El Salvador, and is not allowed to grant loans to the government.

The fiscal reform and the increase in social spending implemented under the Funes government have helped stabilize the Salvadoran economy. However, the IMF estimated that the country's economy grew by just 1.5% in 2012, the lowest such level in the Central American region. According to the IMF, the effects of the global crisis are still being felt by the Salvadoran economy. Tax revenue performed strongly, but current expenditure pressures resulted in the fiscal deficit and public debt exceeding program targets for 2011. The IMF and the government agreed that the overall fiscal deficit is a problem, as are the high levels of subsidies by the state to the private sector. The current account deficit increased from \$0.58 billion in 2010 to \$1.07 billion in 2011 and \$1.2 billion in 2012. This represented a deficit of 4.6% of GDP in 2011 and 5.3% in 2012. Economic stagnation in El Salvador continues although the economic institutional framework of the country has been strengthened.

Macrostability
9

9 | Private Property

Property rights and the regulation of the acquisition of property are well defined in terms of acquisition, benefits, use and sale, but only moderately well protected. El Salvador is a signatory of most relevant international treaties on the protection of property rights (e.g., the Bern Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, the World Intellectual Property Organization (WIPO) Copyright Treaty, and the WIPO Performance and Phonograms Treaty). In December 2005, state authorities revised several laws to comply with provisions of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) provisions on intellectual property rights, including the Intellectual Property Promotion and Protection Law and the Law of Trademarks and other Distinctive Signs. Among other changes, these reforms extended the copyright term from 50 years to 70 years, and made piracy punishable by a jail sentence of two to six years. There are minor restrictions on land ownership and the exploitation of underground resources. Since the Investment Law states that these latter resources belong to the state, concessions for mining are compulsory. With respect to land ownership, no single natural or legal person, either Salvadoran or foreign, may own more than 245 hectares. Rural land cannot be acquired by foreigners from countries in which Salvadorans do not enjoy the same right. Although Article 106 of the constitution allows state authorities to expropriate

Property rights
8

private property for reasons of public utility and social interest, there have been no recent cases of direct expropriation.

El Salvador saw no gain in its International Property Rights Index (IPRI) rating in 2012. Modest losses in the areas of judicial independence, rule of law, and control of corruption forced a 0.1 point decline on the overall legal and political environment measure. The personal property rights rating was unchanged for 2011, although some change was evident within the measure's individual subcomponents. Access to loans rose by 0.5 points to 3.9, though losses in the area of protection of physical property negated this improvement. The country's score for registering property was stable. Intellectual property rights fell by 0.1 points, on the heels of a 0.3 point drop in protection of intellectual property. Copyright piracy and patent protection registered no change.

El Salvador has one of the highest piracy rates in Central America. According to the Business Software Alliance, El Salvador had a piracy rate of 80% between 2009 and 2011, meaning that the use of illegal software is widespread in homes, education centers, non-governmental organizations and businesses. The government has implemented frequent security operations aimed at dismantling centers involved in producing and selling pirated goods. Piracy, especially of software, music and movies, is part of the extended informal economy in the country. This represents a challenge for a Salvadoran government facing considerable international pressure on the issue.

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

The Funes government has guaranteed and strengthened private business in El Salvador. The government protects and promotes the operation of private companies, and has made repeated promises not to reverse the privatization processes conducted by predecessor ARENA governments. At the same time, the Funes administration has taken a stand against privatization proposals that would cause particular harm to the most vulnerable parts of society, and has explicitly sought a more equitable distribution of the benefits of privatization among the population.

In 2012, the Public-Private Partnership Law (Ley de Asocios Público-Privados) was passed with the aim of strengthening public-private investments in the areas of infrastructure, health, education and public security. The law has a particular emphasis on transparency, and calls for the creation of the Office for the Promotion of Foreign Investments to oversee public-private projects. In 2011, President Funes

officially announced that the La Union port would be opened to private sector concession, providing a significant incentive for national and international investors.

10 | Welfare Regime

In line with objectives first formally presented in its Global Anti-Crisis Plan in June 2009, the Funes administration has made significant and consistent efforts to improve El Salvador's social safety nets. Yet though public investment in social policies has grown under Funes, public services' structural shortcomings have proved difficult to overcome. In 2011, investment in social programs reached approximately 4% of GDP, an increase of 70% in comparison with 2010. However, the UNDP has criticized the model implemented by Funes for being focused on money transfers rather than on improving the quality of public services, especially the health system. Additional problems identified in social programs are related to the selection of families receiving benefits and the inadequacy of transparency mechanisms.

The government considers social programs in the area of education, conducted by the Ministry of Education, to be among its biggest successes. Indeed, in a 2012 IUDOP survey, respondents cited education programs as the Funes administration's most important achievement. One such program provides uniforms, shoes and school materials to poor families. Others, such as School Food and Health, have benefited approximately 500,000 students in seven departments of the country.

During the period under review, budgetary allocations devoted to health and education have both been increased. Education expenditure increased from 2.8% of GDP in 2008 to 3.5% in the 2013 budget. Public health expenditure increased from 3.7% of GDP in 2008 to 4.3% in 2010. The coverage of education and health services has expanded, with 95% of eligible children now in primary education, 69% attending middle school and 40% attending high school in 2011. In the same year, the Flexible Education Modalities program allowed approximately 50,000 adults who had not previously finished school to continue their elementary and middle education.

Health programs have shown limited results primarily because of their dependence on international financing. Nevertheless, the creation of community health teams has increased the access to health services, especially in rural areas. Prenatal control programs have helped reduce maternal mortality from a rate of 211 deaths per 100,000 live births during the 1990s to just 50.8 in 2011. Neonatal mortality decreased from 12.2 deaths per 1,000 live births in 2000 to 6.3 in 2011. Also infant mortality under five years decreased from 33.9 deaths per 1,000 live births in 2000 to 15.2 in 2011.

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

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

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

The Funes government has made significant efforts to expand social, political and economic opportunities for all Salvadorans, regardless of background. These efforts have included a presidential decree issued in May 2010 against discrimination on the basis of gender and sexual orientation in the public services, and the establishment of two working groups on indigenous affairs in August 2010 intended to improve representation of the interests of El Salvador's indigenous communities. On 17 March 2011, the Legislative Assembly unanimously approved the Law of Equality, Fairness, and the Elimination of Discrimination Against Women, a set of regulations that improves the judicial framework for the protection of women's rights. This was strongly supported by Salvadoran women's organizations, as well as U.N. Women's Fund for Gender Equality.

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

El Salvador was ranked 94th out of 135 countries worldwide in the Global Gender Gap Report 2012. With respect to economic participation and opportunity gaps, the country has fallen to 112th place; however, it ranks somewhat higher in terms of educational attainment (77th place) and political empowerment (66th place). The same report cited the overall gender ratio among legislators, senior officials and managers as 25 females to 75 males, placing the country 73rd worldwide.

Equal opportunity
5

Employment opportunities in El Salvador depend significantly on the applicant's ethnic background, as indigenous people continue to experience discrimination in terms of hiring and salaries. It remains to be seen whether government programs intended to reduce school expenses and provide better equipment for students in rural schools will become institutionalized, and thus persist beyond short-term electoral horizons.

11 | Economic Performance

In 2009, El Salvador's economy was severely affected by the global economic slowdown caused by the global financial crisis, leading to declines in the country's consumption, investment and trade flow levels. Economic activity began to recover modestly in 2010 and has grown slowly during 2011 and 2012. According to IMF data, real GDP growth in 2011 was projected to be 2%, a slight increase from 1.4% in 2010. Gross public debt increased from 54.1% of GDP in 2010 to 57.3% in 2011. The economy's slow recovery in 2010 was driven by improved export demand and remittance figures. Remittances accounted for 16% of GDP in 2011, and were received by about a third of all households.

Foreign direct investment showed a small increase in 2011, reaching \$8.1 billion as compared to \$7.8 billion in 2010. According to reports by the Salvadoran Ministry of Economy, unemployment levels decreased only marginally from 7.2% in 2010 to 7% in 2011.

The World Bank estimated that tax revenue increased from 12.8% of GDP in 2009 to 13.6% in 2010. Following the passage of fiscal reforms, total government revenue was estimated at 19.4% of GDP in 2011. The value-added tax (VAT) accounted for about 51.7% of total tax revenues in 2011.

Due to comparatively low levels of domestic demand, inflation rates have been low and stable despite rather high international commodity prices and supply-side disruptions, with a rate of 0% in 2009 rising to just 1.2% in 2010, and to a further 5.1% in 2011. This increase is one symptom of the Salvadoran economy's vulnerability to international markets. The country is dependent upon imported foodstuffs, has no domestic gasoline production, and is exposed to natural disasters which can wipe out a year's harvest of corn, rice or beans.

12 | Sustainability

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

Output strength
7

Environmental
policy
5

Watch noted in its 2012 report on El Salvador (concerning developments up to mid-2011), despite moving in the right direction, the Funes government initially paid insufficient attention to the potential for disasters. Specifically, Social Watch called for the enactment and implementation of a number of environmental laws, many of which had been debated at length in recent years. To some extent, this process is now underway. The government has made explicit recognition of the damage caused by previous administrations' sporadic consideration of environmental issues, and with the active involvement of a variety of environmental organizations has taken tangible steps to protect El Salvador's ecosystem.

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

It remains too early to assess whether this new policy will result in real improvements. However, it should be noted that the country's environmental crisis has been produced by structural causes linked to characteristics of an economic model that remains unchanged.

Although overall levels of public spending on education and research and development have remained comparatively low, El Salvador's government has taken action aimed at expanding educational opportunities. The educational system's structural deficits continue to affect the coverage and quality of education, especially in rural areas. Although approximately 95% of children between seven and 15 years of age receive primary education, only 1.8% of children less than four years of age receive pre-primary education of any kind, while 55% of children between four and six years of age attend school. Secondary education, which covers young people between 16 and 18 years of age, is attended by 33.3% of eligible students.

According to data provided by the Salvadoran Ministry of Economy, approximately 14% of Salvadorans 10 years of age or older were illiterate in 2009; illiteracy rates were significantly higher in rural areas (22.7%) than in urban areas (9.2%). Recent social education policies have sought to reduce the gap between rural and urban areas. However, socioeconomic factors are strong trigger mechanisms leading to school dropout. Parents cite a lack of financial resources as the main reason why their children fail to finish school. According to data provided by the UNDP Human Development Report 2010, only 19.4% of Salvadorans aged 25 or older had finished at least a secondary education in 2010. Gender seems to play a much smaller role in determining education opportunities than does the urban/rural divide; the ratio of

Education policy /
R&D

5

female to male enrollment in the education system is 95.5% for primary education, 101.4% for secondary education and 116.0% for tertiary education. Public spending on education decreased from 3.58% of GDP in 2009 to 3.24% in 2010.

El Salvador's relatively weak performance in terms of innovation, as highlighted by international observers such as the IMF and World Bank, is likely to be at least partly due to low levels of expenditure on research and development, totaling just 0.2% of GDP according to the 2010 Legatum Prosperity Index.

Social educational policies have strengthened the capacities of the Ministry of Education, whose programs are perceived by the population to be the Funes administration's most significant successes. Indeed, in order to help financially weak families with school expenses, the administration has implemented programs that include the expansion of a school meals program in urban public schools. According to the ministry, these programs benefited more than 1.4 million students between 2011 and 2012. The Inclusive Schools model, which seeks to provide youth with leisure-time activities so as to prevent involvement in criminal activities, has benefited more than 19,000 students. Additionally, an adult education program initiated in 2009 had served 135,000 persons through 2011.

Although the current government has devoted more resources to the educational system, deficits remain due to the legacy of decades of inattention to the country's educational necessities.

Transformation Management

I. Level of Difficulty

The political leadership's governance capacity was constrained throughout 2011 and 2012 by a variety of different factors, ranging from the consequences of the global financial crisis and the impact of a series of natural disasters to a variety of deeply ingrained social challenges, including high levels of poverty and crime.

Structural
constraints
7

El Salvador was affected more severely by the global financial crisis than were other countries in the region, due to its strong ties to the U.S. economy. During 2010 and 2011, the economy in the country showed signs of a slow recovery. After a sharp decrease in remittance flows during 2008 and 2009, this critical source of funds for the Salvadoran economy grew by 7.2% in 2012. Unemployment levels fell to 7% in 2011, marking a slight reduction compared with 2010. International observers such as the IMF, the U.S. Department of Commerce and the U.S. Department of State note that the country's low workforce education levels in comparison to regional peers and high levels of violence represent two primary challenges to El Salvador's economic performance, as both are likely to deter investment.

High levels of poverty, ingrained socioeconomic inequalities, the deportation of Salvadorans with criminal records from the United States and the country's geographic placement astride Central America's drug trafficking route all contribute to its vulnerability to crime. El Salvador remains one of the most dangerous countries in Latin America, with an average of 13 homicides per day in 2012, although homicide rates fell sharply in the latter part of the year.

Chronic child malnutrition and significant school dropout rates remain particularly widespread in rural areas that are home to people in extreme poverty. Due to infrastructural deficiencies in these areas, rural communities were particularly vulnerable to the effects of Hurricane Ida in 2009 and Tropical Storm Agatha in 2010, as well as the floods and landslides associated with their impact. Reconstruction efforts addressing damage produced by the storms have been slow. Tropical Depression 12-E in 2011 exacerbated these problems, leading to the evacuation of more than 50,000 people, mostly from the lowlands of the Lempa, one of the country's poorest regions. The human and financial costs of these natural disasters,

the resulting crop damage, and additional governance challenges have further contributed to the fairly high level of difficulty in addressing poverty effectively.

Civil society traditions in El Salvador are not strong, but they do exist. Though civil society was a relevant political actor at the beginning and end of the civil war, it lost prominence in the 1990s before starting to grow significantly again in strength throughout the 2000s. By the end of 2012, numerous civil society organizations with diverse societal or political agendas were operating in El Salvador, freely seeking to influence the political decision-making process. These groups are especially important in areas of violence and crime prevention.

Civil society
traditions
5

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

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

Conflict intensity
3

Salvadoran society remains deeply divided by conditions of economic and social inequality. Nevertheless, while numerous reports have described discrimination against the country's poorest populations in a variety of spheres, no political actors have made serious efforts to mobilize the poorer parts of society into a path of violent conflict.

Although crime is the main driver of social conflicts in the country, it is not directly related to social, ethnic, religious or political problems. Recent efforts by the current government to reduce conflicts generated by crime through a truce between gangs have drastically reduced homicide rates in the country. Although this process does not address the structural causes of crime and violence in the country, it has brought an opportunity to change the approach taken by public security policies regarding youth violence. The long-term sustainability of these processes and their impact in terms of reducing overall social conflict remains to be seen.

II. Management Performance

14 | Steering Capability

Question
Score

During the Funes administration's term in office, all government representatives have agreed that the protection of constitutional democracy and a socially responsible market economy are the state's most important strategic long-term aims. The government has gained increasing support in this regard from international organizations, especially from the United States, the country's most important economic and political partner. The United States is responsible for large-scale projects aimed at stimulating public-private partnerships and strengthening social policy in El Salvador. However, government initiatives to accelerate growth and improve the business climate have been slow to materialize.

Prioritization
7

Social policy has been a priority under the current administration, with a particular focus on education in rural areas. Other social programs in the areas of health care and basic services have received comparatively less financial support. Social policy overall has been limited by the state's strained financial resources.

A tax reform governing corporate and individual incomes was approved by the Legislative Assembly in January 2011. This policy seeks to improve compliance with fiscal targets, and achieve terms outlined in the Stand-By Arrangement with the IMF by the end of the current presidential term in June 2014.

The political leadership's ability to set and maintain strategic priorities so as to advance the long-term aim of democratic stability and political inclusion contributed to overcoming the political crisis between the legislature and the Supreme Court. For the remainder of the current presidential term, the Funes administration is expected to maintain continuity with previous macroeconomic and social goals.

In 2012, international organizations observed that despite the political will of the Funes administration regarding economic and tax policies, El Salvador's economic growth remains lower than projected. Tax revenue improved, but expenditure pressures resulted in fiscal deficits and public debt levels higher than had been expected.

Implementation
8

Despite reported delays, the government showed significant social-policy accomplishments during the period under review, particularly in the area of education.

International observers including representatives from the IMF and World Bank have commended El Salvador's government for making good use of international and domestic support in order to achieve its policy goals, while recognizing the significant challenges faced by the political leadership in its attempts to accelerate economic growth and reduce social inequality, especially in rural areas. These challenges include a high level of difficulty associated with the severe impact of the global financial crisis on El Salvador's economy, along with significant structural socioeconomic limitations.

The Funes administration has been quite innovative in its policymaking, and has made considerable changes in the basic principles guiding policy formulation as compared to previous governments. This has been particularly marked in the areas of social policy and education, but other important policy issues have also been addressed. A tax reform program was approved in 2011 and implemented in 2012. In addition, after many years of discussion, out-of-country voting was finally approved in January 2013 and will be implemented in the 2014 presidential elections.

Although the Funes administration has introduced new policy dynamics, these have not been driven by rigorous monitoring of past experiences. Policy innovation normally depends on the personal initiatives of key public officials. Likewise, the Funes government has incorporated the views of policy advisors that in previous administrations were excluded from the policymaking processes. However, the government's influence has been attenuated by the structural foundation of the country's social, economic and political problems. For example, although homicide rates decreased in 2012, the incidence of other forms of criminality remains high. Robbery, extortion and drug trafficking have become more common due to the structural limitations of the police and justice institutions. Despite the truce between gangs, the Funes administration continues to use military forces in low-income areas as a part of its public security policy. There are as a result contrasting approaches: on the one hand, a willingness to negotiate with gangs and improve conditions within the prison system, and on the other hand, the use of repressive measures including military force and anti-gang laws. This demonstrates that weak institutional frameworks have allowed the legacies of "strong hand" policies to persist, which in turn has led to increasingly blurred lines between the roles of the civilian police and the armed forces in maintaining law and order.

15 | Resource Efficiency

El Salvador's government makes efficient use of a substantial part of its economic and financial resources. The dollarization of the economy, a solid banking system, significant progress in the area of national competition policy following the implementation of the 2006 Competition Law, and comparatively low taxes and tariffs contribute to the country's favorable business climate. The Funes

Policy learning
7

Efficient use of
assets
6

administration has moreover made efficient use of domestic and international support, engaging in activities ranging from cooperative ventures with Salvadoran civil society groups to taking advantage of international donor organizations' loan programs to pursue its political and social policy agenda.

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

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

However, all government efforts to improve resource efficiency continue to face structural problems originating in the state's comparatively low financial capacity. The public administration is often affected by delays in the approval of budgets, which produces stagnation in a variety of administrative areas including infrastructure development. Inefficiencies in tax collection and the country's overall economic stagnation have constrained the availability of resources, leaving the public administration somewhat inefficient and administrative personnel often underqualified for their positions.

The government generally coordinates conflicting objectives effectively and acts in a coherent manner, although significant tensions between central political actors have occasionally emerged. Although there are some differences of opinion within the party in government, they do not become relevant when it comes to supporting public decisions. During the period under review, the most significant political crisis was between the legislature and the Supreme Court. Although President Funes showed a preference for the legislature's position at the beginning of the crisis, the administration's subsequent respect for the decisions of the Constitutional Court was fundamental in avoiding escalation. Political stability and social policies were not affected by party-political struggles during the March 2012 legislative and municipal elections.

The emergence of GANA as a third political force reduced political tension between the FMLN and ARENA. By the time of writing, both of the larger parties had already chosen presidential candidates for the 2014 presidential elections; GANA's standard-bearer had not yet been nominated, but former President Antonio Saca appeared to

Policy
coordination
8

be the most likely candidate. Aside from the political crisis between legislature and the Supreme Court, no major political deadlock emerged during the review period. Further political struggles regarding the 2014 presidential election might emerge between ARENA and GANA, however. Any significant social or economic policy shifts in the year before the presidential elections will depend largely on political negotiations inside the Legislative Assembly.

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

Anti-corruption
policy
5

Funes' commitment to anti-corruption activities contrasts with his efforts to limit application of the Law on Access to Public Information. In December 2012, the Constitutional Court deemed the regulation approved by Funes implementing this law to be unconstitutional, as Funes had attempted to manipulate the election of the members of the Institute of Public Information Access. Additionally, in January 2013, President Funes declared all information regarding publicity expenditures to be confidential, which again undermined the Law on Access to Public Information. Thus, implementation of the law has been blocked in practice by political decisions made by Funes and members of the legislature.

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

16 | Consensus-Building

Despite the political crisis between the Legislative Assembly and the Supreme Court, there is fundamental agreement among all major political actors that safeguarding democracy is a long-term strategic aim. The March 2012 legislative and municipal elections demonstrated the stability of the Salvadoran electoral system. The same situation is expected for the presidential election in 2014.

Consensus on goals
9

President Funes has been consistent in promoting a free-market system with the aim of stimulating the vulnerable Salvadoran economy. He has maintained previous governments' privatization and liberalization policies, while increasing social spending in an attempt to reduce poverty and socioeconomic inequalities. The

administration has strengthened policies recommended by the Inter-American Development Bank (IDB), the IMF and the World Bank. The country's participation in programs financed by the United States has strengthened the relationship between the FMLN government and the private sector. During the period under review, issues such as the tax reform were discussed among and accepted by leading political and economic actors.

There are no significant anti-democratic veto actors in El Salvador insofar as "classical" political actors are concerned (such as the military, influential economic actors or powerful opposition groups). Organized crime remains a latent threat, though its current strategy is to bypass the democratic state rather than actively fighting democracy.

Anti-democratic
actors

9

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

Cleavage /
conflict
management

7

The party system has become less polarized. Despite minor deficiencies, the legislative and municipal elections of 2012 showed no real risk of violence between political opponents. The same situation is expected for the 2014 presidential election.

The political leadership has taken action to prevent the escalation of conflicts grounded in socioeconomic cleavages. This includes President Funes' moderate and consensus-oriented policy course, as well as his government's efforts to reduce social and economic inequalities through policy programs specifically aimed at the poorest elements of the population.

While civil society organizations were rarely involved in the policy negotiations of previous governments, the Funes administration has made notable efforts to give non-governmental actors a greater role in the political decision-making process.

Civil society
participation

7

The most important recent example was the incorporation of civil society organizations in support of the gang-truce negotiation process. Civil society organizations focused on crime and youth-violence prevention have accumulated enormous experience since the 1992 peace accords. Most of these organizations are part of the Central American Coalition for the Prevention of Youth Violence. In addition, churches of a variety of denominations were engaged in youth violence

prevention efforts even before the end of the civil war. Church-based organizations are today a key civil society actor in El Salvador.

Although the presence of army officials in the government, especially in key security institution posts, increases distrust among civil society organizations, the recent reduction in homicide rates has opened an opportunity to improve public security policies by taking a civil-society-oriented approach. While Funes has shown support for the truce process, it remains to be seen whether mechanisms able to compensate for social and economic inequality or nonviolent conflict resolution mechanisms among gang members and society can be institutionalized.

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

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

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

17 | International Cooperation

The Salvadoran government mostly makes efficient use of international partnerships to conduct its domestic policy agenda in economic, political and social terms, but is hampered somewhat by administrative shortcomings. During the period under

Reconciliation
6

Effective use of
support
9

review, the political leadership actively pursued new cooperation agreements and built on existing ones as a means of promoting economic growth and development. New agreements included the successful conclusion in May 2010 of an association agreement between the European Union and Central America (excluding Belize), with the explicit aim of fostering sustainable development, regional integration, and political and economic stability in the Central American region.

In December 2011, El Salvador was chosen for the second time to be part of the Millennium Challenge Corporation, a U.S. foreign aid program. The resulting Fomilenio II program will be focused on public-private associations, with a particular aim of strengthening the country's maritime coast area. In addition, the Central American Bank for Economic Integration (CABEI) approved funding of up to \$92 million for the Autonomous Executive Port Commission (CEPA) as partial financing of the government's Program for Development and Sustainability of Air and Sea Ports.

The Salvadoran government also negotiated loans with international donor organizations to advance its political and social policy agenda. In 2012, CABEI's support for El Salvador included the approval of \$71 million in funding for a program strengthening the country's prison system. Social policies have also benefited from international loans. In November 2012, for example, the legislature approved an \$80 million Inter-American Development Bank (IADB) loan earmarked for the health and education sectors. At the same time the IADB approved \$45 million for municipal youth violence prevention programs.

El Salvador's engagement in economic and trade agreements such as CAFTA-DR, its commitment to political dialogue with other Central and Latin American countries through mediums such as the Central American Integration System (Sistema de la Integración Centroamericana, SICA), and its provision of humanitarian and military aid on a global scale have established the country as a credible and reliable partner within the international community. Additionally, ties with the United States continue to be strong, especially after the successful implementation of the Fomilenio I aid program. This program has since been extended.

Likewise, the successful conclusion of several international negotiation processes further confirm the high level of confidence the government has been able to attain within the international community. Examples include an October 2010 cooperation agreement with Russia pertaining to areas such as investment promotion, education and disaster management, as well as the May 2010 association agreement between the European Union and Central America, which includes El Salvador.

El Salvador's political leadership actively and successfully builds and expands upon regional relationships. El Salvador and Honduras enjoy normal diplomatic and trade relations despite repeated disagreements over territorial issues, including an ongoing

Credibility
10

Regional
cooperation
10

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

Strategic Outlook

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

Despite the political crisis that erupted between the Legislative Assembly and the Supreme Court during the review period, the president's moderate and consensus-oriented leadership style has given him a proven track record in realizing the government's ambitious and innovative policy agenda. Particularly notable in this context is the political leadership's effective use of domestic and international support to help realize strategic government priorities, ranging from the active integration of civil society groups into policymaking processes to the efficient use of loans from international donor organizations.

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

economy shows comparatively low investment levels, a dependence on remittances and a vulnerability to negative demand shocks; thus, the political leadership's plans to promote investment through public-private partnerships, increase domestic productivity and diversify the export sector will be crucial to strengthening the country's free-market system.

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