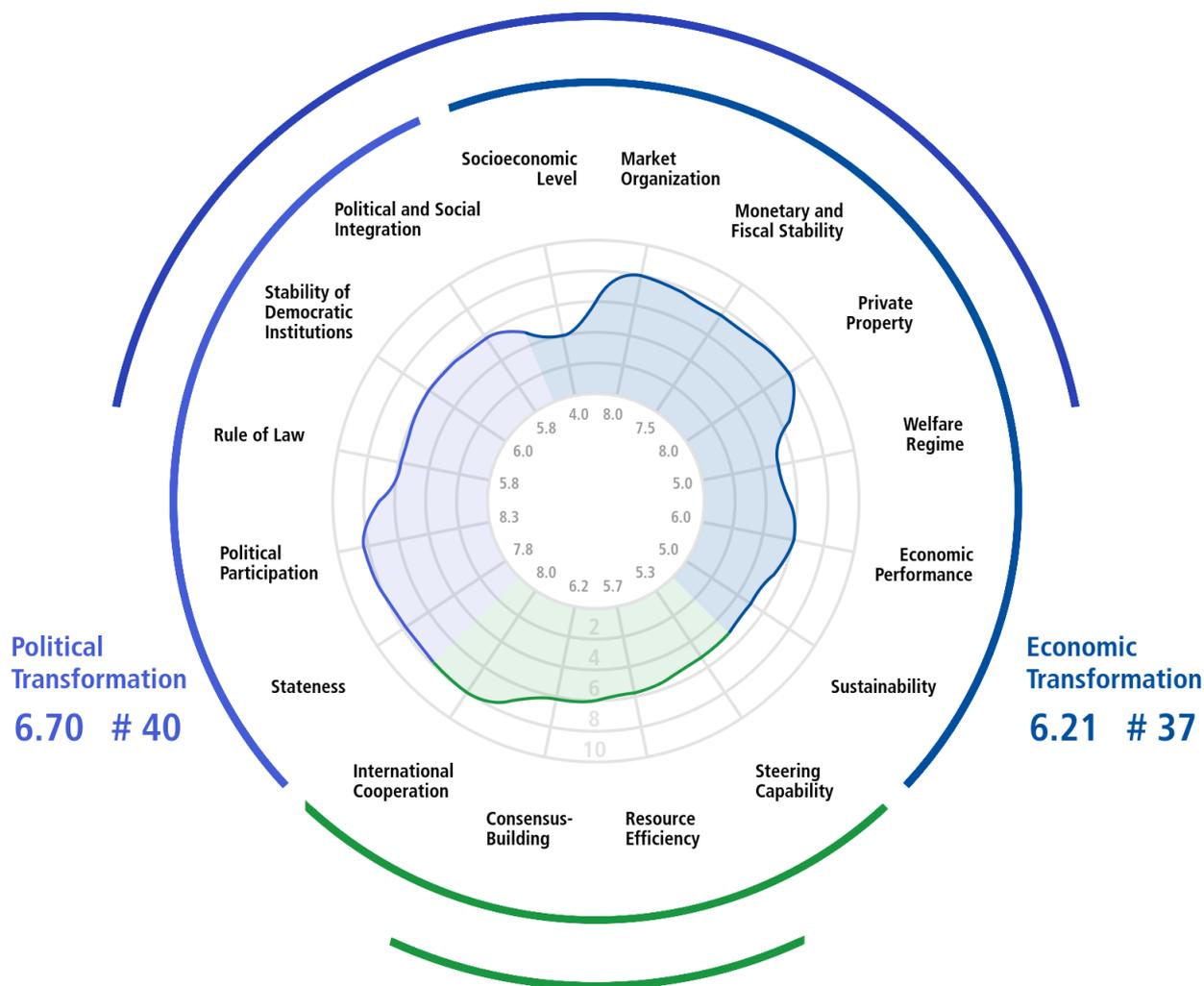


El Salvador

Status Index

6.46 # 34

on 1-10 scale out of 137



Political Transformation
6.70 # 40

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on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	6.5	HDI	0.673	GDP p.c., PPP \$	8499
Pop. growth ¹	% p.a.	0.5	HDI rank of 189	124	Gini Index	38.8
Life expectancy	years	73.3	UN Education Index	0.555	Poverty ³	% 5.7
Urban population	%	73.4	Gender inequality ²	0.383	Aid per capita \$	47.4

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

The first year and a half of President Nayib Bukele's government, in office since June 1, 2019, has highlighted two basic problems that El Salvador faces today: a weakened democratic political system under a president with authoritarian tendencies and an economy that has been distorted by substantial remittance flows and a large informal sector.

The first experience of a full-fledged democracy in El Salvador is about to turn 30 years old. This is the equivalent of a generation, one that was born in the midst of civil war in the 1980s or in the postwar period that began in 1992, and whose understanding of democracy is limited to electoral campaigns and voting for a series of governments that have promised much and delivered little, not always as a result of their own fault. The ensuing disenchantment finally reached a breaking point with the election of an essentially non-party candidate to the presidency in 2019. It should be no surprise that Bukele built his campaign on rejecting past parties and governments, focusing on their complicity with extensive malfeasance schemes two former presidents organized. His simple campaign messages – ambitious public works, anti-corruption measures, youthful enthusiasm – were broadcast via the creative use of social media without even the need for mass rallies.

Since coming to office, his presidential powers have been limited by a legislature still controlled by the established political parties and an unusually assertive Supreme Court. Given Bukele's impulsive nature and disregard for constitutional procedures, he has been engaged in a running confrontation with the opposition that reached its climax on February 9, 2020, when he led a military assault on the legislature to demand approval of a loan. This and other incidents have raised concerns about his commitment to democracy, further put to the test after the February 2021 elections, when his newly registered party gained control of the legislature.

The expectations that Bukele has created cannot be easily satisfied due to a number of structural constraints outside of the government's control. Economic growth remains low, and the government's indebtedness is reaching levels that threaten its ability to acquire new loans. Remittances continue to arrive in record levels, but mostly fuel consumption that, in turn, relies heavily on imports of foodstuffs, energy and finished goods for a predominantly service economy with a huge informal sector.

The COVID-19 pandemic is expected to result in an 8.7% contraction of the economy in 2020. The first wave of the pandemic peaked at around 450 new cases daily in late July 2020 and rose again to around 300 daily cases in December of that year. By the end of January 2021, about 1,500 individuals had died of COVID-19. In comparison to other Central American countries, El Salvador has done remarkably well. The impact of the pandemic has put a number of government projects and private investments on hold. The government requested – and was granted – authority to sell up to \$3 billion worth of bonds to provide direct monetary assistance to citizens and companies in need, cover government income shortfalls, and pay for medical supplies and hospital infrastructure to treat seriously ill COVID-19 patients. So far, there is no detailed report regarding how these funds were disbursed. The first commission designated to monitor their use resigned shortly after its first meetings in May 2020 and a second group the legislature appointed presented its report in February 2021. Preliminary investigative reporting indicates that some expenditures favored relatives and political associates of government officials.

History and Characteristics of Transformation

El Salvador's authoritarian political system headed by military officers began to unravel in the late 1970s, followed by a 12-year civil war (1980 – 1992) that killed tens of thousands of citizens and destroyed a considerable proportion of its economy. When peace was signed in 1992, a new political system came into existence based on political and civil rights, as well as an economy structured around private enterprise and free markets. This was when the political and economic transformation that defines modern El Salvador began to take shape.

For the next 30 years, political debate primarily involved the Alianza Republicana Nacionalista (ARENA) on the right and the Frente Farabundo Martí para la Liberación Nacional (FMLN) on the left. ARENA became the mainstay of private enterprise, fiscal responsibility and monetary stability (when its government introduced the U.S. dollar as legal tender). Its four presidents (1989 – 2009) oversaw an initial period of rapid economic growth and lowered customs duties. After 2000 economic growth was less pronounced and practically stopped during the 2008 world economic recession, after which it has been very modest.

In 2009, the FMLN's candidate won the presidential election amid concerns that the new government would undercut the free-market policies of the ARENA years. Instead, the two successive FMLN governments (2009 – 2019) focused on assisting the disadvantaged sectors of the population via increased spending on education and health which, together with government

support for pension plans, put increased pressure on government finances. By 2017, government debt and budget deficits reached a point that was deemed untenable, and a law was passed requiring the government to prepare budgets with limits on deficit spending and indebtedness. Successive rounds of electoral campaigns and abundant, unfulfilled promises of better things to come eventually discredited the two main parties and opened the door for an alternative candidate – Nayib Bukele – in the 2019 presidential election.

Low economic growth contributed to limited opportunities for young people entering the job market and compounded the country's social inequities. In addition, there was an explosion of social and criminal violence in the postwar years associated with gangs and organized crime. Most agree that social and economic disadvantages are the root problem, aggravated by a large number of children and young people who have been left to fend for themselves after their caregivers (parents mostly) have emigrated in search of better opportunities abroad. Remittances sent by those who have migrated offer economic support to some of those left behind but are no substitute for parental figures of authority and a stable family structure.

As concerns about social and economic problems have monopolized most of the political debate, other equally important issues have been sidelined. The country is one of the most environmentally degraded on the continent, the result of high levels of population density together with non-sustainable farming practices (peasant farming on slopes and chemically-intensive production of crops for export, for example). Water shortages are bound to increase as urban populations grow unabatedly while reliance on food imports is very high.

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

Transformation Status

I. Political Transformation

1 | Stateness

The state's monopoly on the use of force in principle covers the entire territory, but there are particular pockets where crime levels are persistently high enough to suggest a significant loss of state control over population and territory and its ability to guarantee basic rights. This is the case, especially, in the greater metropolitan area of the capital, San Salvador, where all three main gangs have a strong presence. One of them has expanded its operations to most of the rest of the country.

Since coming to office in mid-2019, the government of El Salvador headed by President Nayib Bukele has made reducing homicides and other crimes one of its highest priorities. To this end, Bukele announced a "territorial control plan" a few weeks after assuming office that seeks to reduce and eventually eliminate the presence of armed non-state actors in the country's major urban areas, in reference to gangs and criminal organizations. The plan includes isolating prison populations by cutting off mobile phone services, involving more army troops in policing duties and providing more education and vocational training for youth at risk, for which the government has requested additional financing.

Homicide rates have decreased since the plan went into effect. After peaking in 2015 at more than 100 homicides per 100,000 people, the numbers dropped again to around 50 in 2018. In 2019, they dropped again to 36.0 and in 2020 to a record low of 19.8. However, there is still debate as to whether the measures themselves are the cause or whether the government has been engaged in secret negotiations with gangs to reduce violent acts in exchange for more lenient conditions for their jailed leaders. Since the gangs still exist and continue to operate their rackets, extracting protection money from businesses and individuals and engaging in retail drug sales, the government does not have a monopoly of the use of force in the entirety of the country's territory. In all of 2019, a total of 193 individuals died in armed confrontations with the authorities, a slight decline from 2018. In addition, 30 police officers and soldiers were killed while on or off duty.

Question
Score

Monopoly on the
use of force

7

'06 '22 10



1

A large majority of the population identifies with the Salvadoran nation-state as it is currently organized. Citizenship rights are universally respected, and no group or individual is denied access to a passport or the national ID card (Documento Único de Identidad), which is sufficient proof of identity to undertake any legally binding public or private transaction. The state has modernized many of its procedures to enable online operations and to improve accessibility to government services. At the same time, a considerable proportion of the population has emigrated and the remittances they send, together with other forms of engagement with people in the country, mean that pressure to expand citizenship rights is increasing, especially for minority groups (the LGBTQ+ community, populations with special needs), much as is happening in many parts of the developed world.

The Salvadoran state has been nominally secular since the late 19th century. However, institutional and popular religiosity have been on the rise in recent years, exerting influence over electoral and political outcomes in ways that rarely occurred previously. The most salient of these is the absolute prohibition on abortions, even if a mother's life is in danger, as a result of a constitutional amendment in 1998. More recently, attempts to legally recognize civil unions between same-sex couples were rejected on religious grounds.

Expressions of religious beliefs during official functions are of a primarily symbolic nature, such as religious imagery or verbal references to divine entities. However, the recent canonization of Archbishop Óscar Romero, the country's first and only saint, has enhanced the role of religious institutions in public life. Evangelical churches have also proliferated. Although most are very small, taken together, they represent an important voting bloc, and the few large churches exert a clear political influence.

Since the signing of the peace accords in 1992, a considerable amount of the Salvadoran state's operations have been privatized: telecommunications, retirement funds, banks, and electricity generation and distribution. Important state functions in the areas of health, education, public safety and justice, and public works, while clearly defined and constitutionally mandated, have always been underfunded. Spending on education, for example, has been consistently well below the level of 6% of GDP international development agencies consider necessary. Rural areas have traditionally been neglected more than population centers, especially with regard to health services. Two situations have made things worse: the change of government in 2019 and the COVID-19 pandemic (as of March 2020).

The new government headed by President Nayib Bukele, who took office on June 1, 2019, replaced a large swath of high- and mid-level government officials with relatively underqualified young individuals, a majority of whom have no prior experience in public administration and little knowledge of – or regard for – constitutionally mandated procedures. In addition, the measures enacted by the government as of March 2020 when the COVID-19 pandemic began were haphazard and insufficient and complicated by insistent accusations of corruption in emergency

State identity

9



1

No interference of religious dogmas

9



1

Basic administration

6



1

purchases and contracts. The pandemic has placed considerable strain on public institutions and finances, already burdened by President Bukele's highly personal style of government and by frequent standoffs between the legislative and judicial branches of government and the presidency.

2 | Political Participation

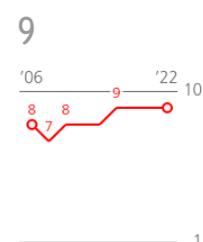
Since the end of the civil war in 1992 and the constitutional reforms that were part of the peace agreement, elections have been held regularly and peacefully, every five years for president and every three years for legislators and municipal authorities. The electoral authority (Tribunal Supremo Electoral) is composed of representatives of the main political parties and has generally done its job well: since 1992, there have been no significant challenges to electoral results and changes in electoral procedures have made it easier to vote (for example, including photographs of candidates on printed ballots). In addition, independent (non-party) candidates can now run for office and the constitution of municipal councils is now determined proportionally, according to voting results (previously the winner took all council seats and the office of mayor).

Under these electoral practices, political representation at the national and local government levels has changed over time. The business-friendly government of the ARENA party held the presidency from 1989 to 2009, followed by the left-wing FMLN party from 2009 to 2019, and finally a populist candidate, Nayib Bukele, the former mayor of the capital city, overturned them both by winning the February 2019 election for president with over 50% of the vote and thereby avoiding a runoff. His election was especially relevant because he was not able to register his party (Nuevas Ideas, or New Ideas) in time and had to run under the banner of a small right-wing party.

Perhaps the biggest problem that the electoral system faces at this moment is voter participation. In the 2019 presidential elections, 5.2 million individuals were eligible to vote but only 52% actually did so. Thus, President Bukele, who received 53.1% of the votes, was elected by about 27% of the voting-age population. Still, the results were a political revolution that eradicated the essentially two-party system that had been in place since 1992: the ARENA party (in alliance with three minor parties) received nearly 32% of the vote and the FMLN only 14.4%. Low voter turnout was most likely a reflection of disenchantment with the traditional parties.

It is currently possible for expatriates (some two million people) to vote, but they must register at the nearest Salvadoran consulate or by email, have a valid Salvadoran ID and provide an address where they will receive ballots. Since most expatriates are undocumented in their country of residence, they are reluctant to provide personal information. In the presidential election of 2019, only 5,948 Salvadorans living abroad in 18 countries registered to vote. Of those only 3,808 actually voted.

Free and fair elections



Since the successful exclusion of the military from politics after the 1992 peace accords, there are no overt veto powers or political constraints on elected government officials. Pressure groups (lobbies) still exist but they are different from the ones that existed prior to the war. For example, the historically important agrarian interests (coffee, cotton, sugar), whose representatives used to have the final say in many aspects of government policy, have now largely been displaced by a private sector that is heavily involved in services and offshore production for export. Since there is broad consensus regarding the legitimacy of private property and free enterprise, there have been no occasions when disgruntled business interests have challenged the stability of the political system.

Civil society concerns also act via institutional procedures. For example, civil society organizations lobbied for years to pass a law to prohibit all metal mining in the country, which a number of transnational companies countered. The latter eventually lost out and were forced to leave the country.

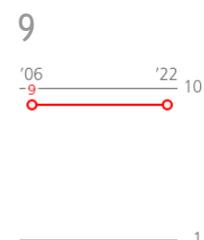
More recently, the government of Nayib Bukele has involved the armed forces in a number of activities, which have been criticized as a return to past practices: increased involvement in policing activities, a prominent role in enforcing COVID-19 restrictions on movement and the use of soldiers to take over the legislature in February 2020. However, these initiatives did not originate in the armed forces, which can thus be considered essentially obedient to civil authorities.

Freedom of association and movement were generally respected until the COVID-19 pandemic measures were imposed on the country in March 2020. At the same time, El Salvador is the Central American country with the lowest level of protest movements in the past years, which could be interpreted as a reflection of a functional political system and of civil society organizations that can channel popular demands effectively.

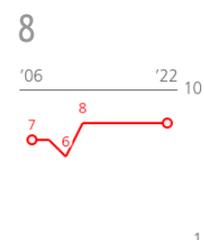
The arrival of COVID-19 in the country in March 2020 placed limits on a number of civil rights. The first measures the government enacted in mid-March to counter the pandemic were suspension of the freedom of assembly, suspension of non-essential work activities and closure of the international airport (it reopened in October 2020); around 3,000 Salvadorans travelling abroad were unable to return home until May 2020. At the end of March, a strict national lockdown was imposed; people were allowed to leave their homes only to buy food and medicine and those who were detained for violations were summarily sent to quarantine centers (together with those who returned from abroad). These measures were strongly criticized as disproportionate and arbitrary, which the president himself thought would make them effective.

Restrictions were lifted gradually, and, by August 2020, most economic and administrative activities were allowed with restrictions (mandatory mask wearing, social distancing). As of January 2021, a second national lockdown was being contemplated in response to the second wave of COVID-19 infections.

Effective power to govern



Association / assembly rights



In general, constitutionally mandated freedom of expression is respected but a couple of situations have caused concern since Nayib Bukele assumed the presidency in June 2019. First, Bukele has been irked by investigative reporting of his handling of the pandemic, corruption associated with his appointees in government and his contentious relationship with the legislature and the judiciary. As a result, some media outlets have been denied access to information and press conferences. Equally troubling, the more critical media (especially digital newspapers) have been subject to threats of special audits under accusations of money-laundering for receiving funds from abroad and for supposedly defending specific business interests.

Second, a new government-funded daily newspaper was launched in October 2020. State institutions (the armed forces, the port authority, ministries, etc.) pay for its advertisements and its reporting and editorial content are uniformly favorable to the government. One government-controlled TV channel, which broadcasts educational and cultural content, will reportedly become a mouthpiece for government news and opinion. All of this is in addition to the monies spent regularly by the government (by all previous governments, too) on billboards, advertisements and televised video clips.

A new dimension in political debates is social media, which President Bukele has used effectively since he was a candidate for office. Since assuming the presidency, he has tweeted frequently, calling out opposition politicians, other branches of government, investigative journalists and diverse NGOs working in human rights and corruption. Electoral results bear out the success of his media strategy.

3 | Rule of Law

Since the signing of the Peace Accord of 1992 until 2019, the separation of powers was largely respected while the ARENA (business-friendly) and FMLN (nominally left-wing) Parties were in control of the executive. There was a basic consensus over the role of the private sector in job creation and the state as a provider of social services. However, the election of Nayib Bukele to the presidency in February 2019 as the candidate of a minority party created an unprecedented situation: he had to govern with a legislature in the hands of the opposition until the legislative and municipal elections of February 2021. Given his confrontational style of governing, his relationship with the legislature has been tense.

When the legislature delayed approval of an international loan in support of his public security strategy, he took over the legislative venue on February 9, 2020, for less than an hour (it was not in session) with a body of soldiers and police officers in a show of force that led to nothing. Subsequently, the legislature questioned the minister of defense, but no specific measures were taken to censure the president.

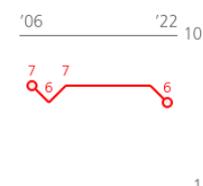
Freedom of expression

7



Separation of powers

6



Lockdown and quarantine measures designed to confront the COVID-19 pandemic were approved by the legislature but disregarded by the president, who proceeded to decree his own measures, leading to confusion that even involved the Supreme Court. Of particular concern have been restrictions on individual movement, which the president attempted initially to forcefully restrict as part of the quarantine measures, but which the Supreme Court ruled he had no authority to impose. In the end, the country did not have comprehensive, duly sanctioned legislation to confront the pandemic until the legislature approved a law in October 2020, which the president vetoed. However, his veto was overridden, and the Supreme Court ruled that the law must be published under the authority of the legislature. The executive has also denied the legislature access to spending records on matters related to COVID-19.

The judicial activism of the Supreme Court that began some twenty years ago has intensified, especially after the enactment of laws and decrees dealing with the COVID-19 pandemic. The Constitutional Chamber of the court struck down an executive order allowing for the arrest of people who defied lockdown restrictions, a ruling which the president said he would not obey; the court also decreed that the president's unilateral extension of the lockdown was unconstitutional and should have been accomplished via legislative action. Subsequently, in August 2020, the president said that, were he a dictator, he would have the court's justices "shot" for rejecting his decree to reopen the economy. In general, the Supreme Court has been called upon to decide in cases where the legislative and the executive have been at odds and thus, even if its decisions are not always obeyed, its presence has been considerably enhanced.

However, the fifteen Supreme Court justices are elected for nine-year periods via a two-thirds majority of the legislature. At present, five justices will be re-elected or replaced in 2021, another five in 2024 and the last five in 2027. What is politically important is that four of the five justices of the constitutional chamber – the one that rules on the constitutionality of laws and has been at the center of the confrontation between the legislative and executive branches of government – will remain until 2027 and could conceivably act as a counterweight to President Bukele's disregard for constitutional provisions.

The lower courts continue to be swamped by backlogs of pending cases and access to justice, especially in rural areas, is still a problem. Inefficiency is compounded by corruption and insufficient funding, not to mention the high rates of violent crime that need to be addressed judicially. As a result, impunity is widespread and the judicial system is perceived as not being up to the task of delivering timely and equal justice for all, which is compounded by a lack of support when it comes to politically sensitive cases. For example, a local judge is investigating the massacre of nearly 1,000 people at the hands of the army in the village of El Mozote in December 1981, but the judge has consistently been denied access to military archives.

Independent
judiciary

6

'06 '22 10

6

1

The most egregious recent cases of corruption involved two former presidents – Saca (2004 – 2009) and Funes (2009 – 2014) – but they were prosecuted once they left office. Saca is serving a prison sentence, while Funes fled the country. Most cases of criminal activity by lesser officials have also been prosecuted once they left office. Few have been successful. However, since President Bukele assumed office, an assertive legislative body controlled by opposition political parties and independent journalists engaged in investigative reporting have attempted to call out corrupt practices, especially since the beginning of the COVID-19 pandemic.

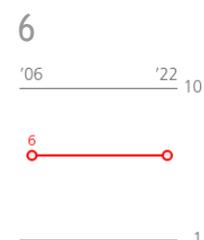
Most cases involve the use of monies the legislature authorized to fight the pandemic, which have been spent under emergency provisions that do not require regular bidding processes. A commission of five individuals from among academia and the private sector that the government set up to oversee the spending of COVID-19 emergency funds resigned a few weeks after being appointed because they were not receiving the information that they had requested to do their jobs. Access to public documents is also denied to journalists and academics in clear disregard of the law.

Otherwise, the judicial system has limited experience and capacities trying cases of public corruption. The attorney general’s office usually begins investigations of public corruption after they have been uncovered by investigative reporting and is practically obliged to proceed. The current attorney general (whose term ends in November 2021) has been active in investigating corruption in the current government because he has the backing of a legislature controlled by opposition parties. If Bukele’s supporters win control of the legislature in the February 2021 elections and appoint the next attorney general, prosecution of public corruption will be much more difficult.

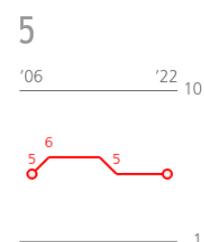
The respect of civil rights is one of the most important legacies of the 1992 Peace Accord. Constitutional provisions and the office of the human rights ombudsman confirm this commitment to basic civil rights. In reality, there is still considerable room for improvement. Discrimination against members of the LGBTQ+ population is still common. The law does not prohibit nor punish homosexual relations – in fact, sexual orientation and gender identity have been included recently in the penal code’s hate crime provisions – but society still strongly rejects same-sex marriage and civil partnerships. Women’s reproductive rights are severely affected by a total ban on abortions; some cases of long prison sentences have received international news coverage. In addition, violations of COVID-19 restrictions of movement were punished severely with arbitrary detentions and confinements by the police. Some people were injured in the process.

At the same time, there has been a noticeable decrease in the number of homicides since President Bukele assumed office in mid-2019. The homicide rate, already in decline since 2016, was 36 per 100,000 in 2019 but fell to 20 per 100,000 in 2020. There were twenty days on which no homicides at all occurred in 2020. The government says its policy of “territorial control” is responsible for this improvement,

Prosecution of office abuse



Civil rights



but recent investigative reporting suggests that the government has negotiated with gangs to reduce intra-gang violence in exchange for better jail conditions for imprisoned gang leaders and political support in the upcoming legislative elections in February 2021.

The respect and exercise of civil rights is generally linked to economic and social inequalities. Police engage in intimidation when dealing with low-income suspects and the court system proceeds slowly if a person does not have the right lawyers or connections. This is especially true in cases involving suspected gang membership, which are mostly associated with youth living in low-income areas. The use of army troops to assist the police only makes respect for civil rights more difficult.

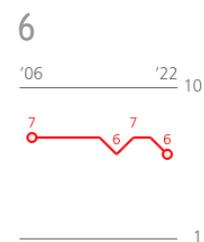
4 | Stability of Democratic Institutions

The introduction of constitutionally sanctioned political norms and practices beginning in the mid-1980s led to the creation of a pluralist democracy in El Salvador that has been regarded as one of the most successful post-civil-war transitions in recent times. However, the election of Nayib Bukele as president in 2019 has placed the entire political system in jeopardy, especially since COVID-19 struck the country in March 2020. Bukele had already criticized the legislative branch of government for delaying the approval of funds for his public safety policy objectives, which culminated on February 9, 2020, when he personally led a brief takeover of the Legislative Assembly to demand a vote on a budget bill.

Since then, the legislature and the president have been engaged in a confrontation over who should establish policy with regards to the COVID-19 pandemic and other issues such as deficit spending, government contracts and the role of the army. The Supreme Court has also been involved, siding mostly with the legislature. This unprecedented situation has resulted in a lack of coherent policies to respond to the pandemic and no indication that the standoff will end before a new legislature is sworn in by May 2021, if then.

All in all, events over the past two years have made it clear that democratic institutions are only as strong as the will of leaders and people to abide by them. These events also underline the importance of outside (international) actors, who were instrumental in establishing the country's democratic institutions and which now are key more than ever to their continued existence.

Performance of democratic institutions



Before the election of Nayib Bukele as president in 2019, the institutions of government derived from the constitution of 1983 and the reforms enacted in 1992 as part of the Peace Accord were widely accepted. The executive occasionally vetoed bills approved by the legislature and the legislature sometimes overrode them. All in all, El Salvador was held up as an example of a successful transition to a democracy built on institutions and the rule of law.

With Bukele in the presidency, the respect for democratic institutions has faltered: the president has disregarded legislative veto overrides; he has disregarded Supreme Court rulings on the legality of executive decrees; he has failed to address the legislature to present his constitutionally mandated yearly report; his ministers have failed to appear before legislative commissions investigating government expenditures; and he famously invaded the legislative chamber with troops and police on February 9, 2020. Just as worrisome is his appointment of a committee to revise the constitution, as well as his close alliance with the armed forces based on promises of promotions and increased budget outlays in exchange for expressions of personal loyalty.

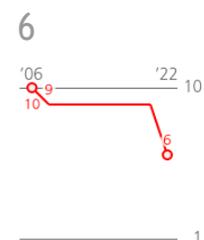
5 | Political and Social Integration

Until 2019, the party system established in the 1990s was characterized by low fragmentation, moderate polarization and a certain volatility typical of competitive presidential systems. It involved a right-wing party (ARENA) associated with the private sector and a left-wing party (FMLN) that emerged from the guerrilla movements after the Peace Accord; these two parties shared control of the legislature and the executive. In 2019 Nayib Bukele, essentially a non-party candidate, won an overwhelming electoral victory (53% of the popular vote) for the presidency by criticizing and rejecting most of the political establishment as corrupt and incompetent and promising a new beginning, free of corruption and inspired by new ideas.

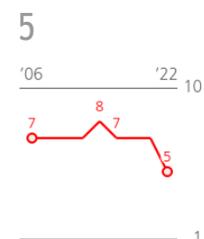
His movement – actually called “Nuevas Ideas” (New Ideas) – is now a formally constituted political party that, according to opinion surveys, over 60% of the electorate prefer in the February 2021 legislative and municipal elections. The elections that took place shortly after the end of the review period confirmed this trend toward a radical revamping of the party system; with a two-thirds majority in parliament, Bukele can enact any number of laws and reform the structure of government and political activity.

In December 2020, Bukele expressed one of his more extreme beliefs: the civil war and the Peace Accord were shams that produced nothing good for the Salvadoran population but only benefited the leadership of the established political parties and the guerrilla armies. This was an appeal to a voting population which was born during or after the war and has no particular affinity to any of its contending factions.

Commitment to democratic institutions



Party system



Although the winds of change are blowing, there are no guarantees that the old political practices will end: nepotism, patronage and personal loyalties are as present (if not more so) under President Bukele as they were during previous administrations.

The most visible and influential interest groups are those that represent the private sector – particularly industrialists, merchants and bankers – all of which have longstanding business associations, especially the Salvadoran Association of Private Enterprise (ANEP) and the Salvadoran Chamber of Commerce and Industry. Agrarian interests, once dominant, have largely been displaced as the economy and the population have become more urban-centered.

Labor unions mostly operate in the construction industry and to some extent in offshore production enterprises but have mostly gone unnoticed during the last few decades compared to their activism in the years prior to the civil war, when they also had a political agenda. In addition, a considerable proportion of the labor force is self-employed or works in the informal sector, where few associations exist.

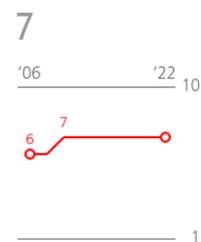
Unionized government employees mostly work in the education and health sectors but have not been openly active in pressing for increases in salaries. Professional organizations have a more important voice. The medical profession, for example, has been vocal since the arrival of the COVID-19 pandemic and the legal profession has a voice in a number of judicial appointments.

A variety of civil society organizations continue to exert pressure on behalf of societal demands: including women's and gender rights, defense and availability of water resources and transparency and accountability of government operations. However, these associations are usually small and underfunded, and represent precisely those community groups most affected by social inequality. In addition, they have little in common with the more powerful business and professional interests, resulting in weak cooperation patterns.

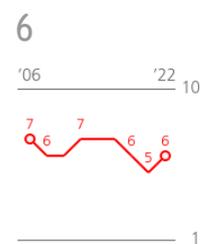
In general, Salvadorans associate democracy with elections and individuals liberties, which they view positively, but are critical when political rivalries turn into mutual accusations of corruption and incompetence or when the people's representatives are unable to reach agreements on important issues.

The most recent survey of attitudes toward democracy (December 2020) by the public opinion institute of the Universidad Centroamericana (UCA) discovered that nearly two-thirds of those interviewed considered that the country was democratic and eight out of 10 considered democracy the best form of government. Democracy was associated with free speech, individual liberties, equality before the law and the right to elect government officials. But very few referred to the operations of democratic systems (separation of powers, judicial autonomy, accountability) and a little over one-third of respondents did not know what democracy meant at all.

Interest groups



Approval of democracy

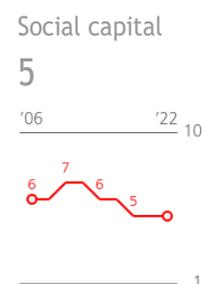


Still, expectations around the promise of elections have increased: in 2018, six out of 10 respondents claimed that elections were a waste of time, while in 2020 the proportion was inverted: four out of 10 thought so. Nine out of 10 agreed that elections represent the will of the people. A little over one-half of respondents expressed confidence in the February 2021 legislative and municipal elections, which is a 10-point increase over what they stated regarding the 2019 presidential elections. A little under half thought fraud might be involved.

Overall, these data might indicate a temporary recovery. The results of the most recent Latinobarómetro poll of 2018 showed approval for the electoral system at only 12%, the judiciary at 14%, the legislature at 10%, and political parties at 6%. The 2018/19 LAPOP shows better approval ratings, but they are all lower than previous similar polls: approval for the electoral system is at 45.6%, the legislature at 41.3% and political parties at 28.8%. At the same time, respondents to both polls rate the armed forces slightly higher: according to Latinobarómetro, at 27% approval compared to LAPOP at 60.1%.

The latest survey to analyze the levels of interpersonal trust in El Salvador was Latinobarómetro in 2018, which reported that only 13% of Salvadorans believed that others could be trusted. It is not clear whether the COVID-19 pandemic in 2020 altered this perception but most surveys and opinion pieces in the media suggest that the government is primarily responsible for handling the pandemic, both as a consequence of the traditional reliance of people on government responses to national emergencies, as well as the role which the current president has created for himself as the principal or sole provider of solutions (in true populist fashion).

Since the end of the civil war in 1992, the rights and freedoms enjoyed by Salvadorans have been translated into an abundance of local initiatives to improve living conditions, some of them sponsored by religious organizations, others by civic groups. Charitable and professional organizations have tried to help, but the magnitude of the pandemic crisis and the few resources available means that there is little they can do, especially given the highly contagious nature of COVID-19, which limits human interactions. Even more important are remittances Salvadorans living abroad send to their relatives that allow many to overcome poverty and weather the pandemic. However, those who do not receive remittances are most likely less well off than previously.



II. Economic Transformation

6 | Level of Socioeconomic Development

Despite improvements, poverty and inequality are still rather pronounced and partly structurally ingrained. El Salvador's poverty rate has declined slowly over the years in a context of very low annual economic growth rates, which have rarely surpassed 2.5% in the last two decades. According to the World Bank, the poverty headcount ratio declined from 40% in 2008 to 31.8% in 2015 and dropped still further to 22.8% in 2019. This reduction in poverty is largely due to remittances, which the neediest people in the country receive. Poverty is structurally associated with the informal sector, which employs between 65% and 70% of all working individuals. The people in this sector have been especially hard hit by the economic contraction – estimated at 8.7% of GDP in 2020 – caused by the lockdown and other measures in response to the COVID-19 pandemic.

El Salvador's HDI will certainly be affected by COVID-19. Since 2009, it has increased only minimally from 0.656 to 0.673 in 2019, which places El Salvador 124th between Iraq and Tajikistan. Despite improvements, inequality remains pronounced and is a structural reality that has proved resistant to easy or quick solutions. The overall loss in HDI due to inequality was 21.4% in 2019, somewhat in the middle regionally and globally. However, over the long term, the Gini index has fallen from 54.5 in 1998 to 38.6 in 2018, according to the World Bank (which makes El Salvador first in the region, ahead of Uruguay). Less pronounced but significant are improvements in the gender inequality index from 0.482 in 2005 to 0.383 in 2019.

Economic indicators		2017	2018	2019	2020
GDP	\$ M	24979.2	26020.9	26896.7	24638.7
GDP growth	%	2.3	2.4	2.6	-7.9
Inflation (CPI)	%	1.0	1.1	0.1	-0.4
Unemployment	%	4.4	4.0	4.0	7.0
Foreign direct investment	% of GDP	2.0	1.6	2.6	-
Export growth	%	3.4	1.6	6.2	-21.2
Import growth	%	1.4	2.6	2.9	-10.2
Current account balance	\$ M	-464.6	-859.2	-165.4	120.9

Question
Score

Socioeconomic
barriers

4

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Economic indicators		2017	2018	2019	2020
Public debt	% of GDP	70.5	70.4	71.3	89.2
External debt	\$ M	17179.4	16724.7	17379.4	18333.7
Total debt service	\$ M	3813.9	3540.5	5632.5	5166.3
Net lending/borrowing	% of GDP	-0.6	-0.6	-0.9	-
Tax revenue	% of GDP	17.8	18.1	18.1	-
Government consumption	% of GDP	16.1	16.1	16.2	19.4
Public education spending	% of GDP	3.7	3.6	3.4	-
Public health spending	% of GDP	4.6	4.5	-	-
R&D expenditure	% of GDP	0.2	0.2	-	-
Military expenditure	% of GDP	1.0	1.1	1.2	1.5

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

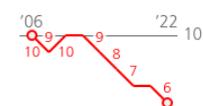
The 1983 constitution contains provisions on the rights to private property and economic freedom under the proviso that they enhance social well-being (Articles 102 and 103). Since the end of the civil war in 1992, successive governments on both the right and the left have respected these constitutional provisions. The economy was dollarized in 2000, which eliminated any possibility of currency exchange controls and restrictions on capital flows or repatriation of earnings. The election of Nayib Bukele as president in 2019 is not expected to alter this situation.

The Heritage Foundation's 2020 index of economic freedom ranks El Salvador 90th (category "moderately free") out of a total of 180 countries (between Tanzania and Montenegro). Most of the problems associated with business ventures have to do with cumbersome bureaucratic procedures: numerous and time-consuming steps to set up a business and the monetary cost to do so. According to Doing Business 2020, it takes 16.5 days, nine procedures, and 43.3% of GNI per capita.

In general, very modest economic growth has been the result, in the Heritage Foundation's opinion, of a low productive base and an uncompetitive wage structure. The fact is that around two-thirds of the work force is employed in the informal sector and remittances have become a structural component of the economic system. At the

Market
organization

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same time, the formal sector is highly concentrated in a handful of powerful (mostly family-owned) holdings that play a dominant role in retail shopping, automobile sales and construction.

Monopolies are explicitly prohibited by the constitution (except under state or municipal control when deemed socially necessary). The Superintendency of Competition (SC) was set up in 2006 to enforce a competition law approved shortly beforehand. The SC, which is a member of the International Competition Network (ICN), is authorized to fine companies that violate the competition law and can prevent mergers of companies if their combined weight exceeds a certain maximum. The SC's two most recent cases involved telecommunications firms.

Monopolies in the distribution and sale of consumer goods are difficult to establish, given the unrestricted access to goods on the world market. However, there have been cases of price fixing that have led to investigations, such as in 2010, when it was determined that the production, import, distribution and sale of medicines was controlled by a small number of companies that led to excessively high retail prices. As a result, a law passed in 2012 regulates the prices of medicines. Since then, there have been no relevant cases involving monopolistic practices.

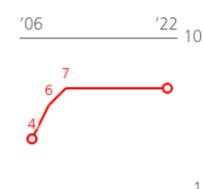
In general, the SC is small and underfunded. It tends to spend a lot of time investigating minor claims instead of focusing on potentially big violators of the law on competition. In addition, its rulings can be appealed in court, thereby delaying the payment of fines or compliance with cease and desist orders.

The governments of El Salvador have implemented very liberal trade practices since the 1990s, both in response to policy commitments and to the influx of massive remittances from Salvadorans abroad. In order to counter inflationary pressures from a Salvadoran version of “Dutch disease,” imports have been allowed in freely. Subsequently, the country joined the WTO in 1995 and the Central American Free Trade Agreement (CAFTA) with the United States in 2006. CAFTA agreements stipulate progressive phasing out of most tariffs by 2024. The United States is currently El Salvador's main trading partner: in 2018, 42% of El Salvador's exports and 30% of its imports were with that country. Regional free trade agreements also exist with the EU, Chile, Colombia, Mexico, South Korea and – since January 1, 2021 – the UK.

According to the WTO, the country's simple average most favored nation applied tariff rate in 2019 was 6.0%. Regarding countries without a bilateral trade agreement, most of El Salvador's tariffs do not exceed the maximum common external tariff of the Central American Common Market of 15%. Tariffs on new and used finished clothing are generally 25% in deference to the country's textile industry. Agricultural products face the highest tariffs. Aside from import tariffs, all goods and services in El Salvador are subject to a value-added tax (VAT) of 13%.

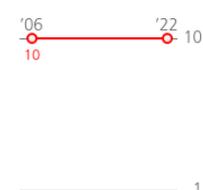
Competition policy

7



Liberalization of foreign trade

10



At the beginning of 2020, the four largest banks in El Salvador were owned by transnational banking corporations: two by Colombian interests, one by a Canadian bank and one by a Honduran financial corporation. In 2020, the Honduran corporation absorbed the Canadian bank, so there are now three large banks in the country. The sale of the banks to transnational interests can be explained in part by the introduction in 2000 of the U.S. dollar as legal tender, which means that the country has no domestic currency or monetary policy and that the central bank is unable to provide liquidity when required. Now bank solvency is assured to the extent possible by the local banks' foreign parent companies.

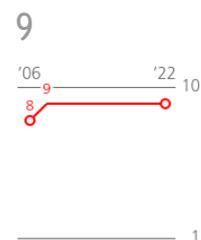
At present, there are twelve private banks in the country, while the state retains majority control of two small banks, including the national mortgage bank. There are an additional five small banks organized as cooperative entities. The banking system is subject to oversight by the Superintendency of the Financial System (SSF). Its work is complemented by regular reporting by the Salvadoran Banking Association (ABANSA), a group that mostly represents the private banks.

As a dollarized economy, there are no currency or exchange controls in El Salvador. Still, the banks are legally required to report large or suspicious transactions to the SSF and law officials. In addition, every bank is required to make available its audited financial statements every year.

The banking system does not seem to have been unduly affected by the economic downturn due to COVID-19 lockdown measures and increased unemployment in the United States (which directly affects remittance flows). Bank capital to assets ratio in December 2020 was 11.83%, compared to 12.68% for the same month in 2019, while non-performing loans represented 1.8% and 1.9% of total loans in December 2020 and December 2019, respectively. The distribution of outstanding loans as of September 2020 reflects the credit priorities of El Salvador's economic agents: out of a total of \$13.3 billion in outstanding loans, 34% were used to finance consumption, 19% for housing purchases, 13.4% for commercial operations and 10% for manufacturing, but only 3.1% were channeled toward agricultural activities.

In the informal sector money lenders manage credit to a considerable degree. According to a study sponsored by the banking association in 2019, only about a third of people working in the informal sector in the five most important urban centers receive loans from banks and savings and loan cooperatives, while nearly all of them use recurring credit money lenders provide at interest rates that can add up to over 1,000% per year. These predatory credit practices are difficult to control as they involve individuals with links to criminal organizations.

Banking system



8 | Monetary and fiscal stability

As of November 2000, the U.S. dollar is legal tender in El Salvador. The local currency, the colón, is still legal tender but all colón notes have been removed from circulation. Thus, monetary stability is assured, and any inflationary tendencies are a reflection of inflation in the U.S. economy and the exchange rate of the U.S. dollar versus other currencies. The Economic Commission for Latin America and the Caribbean (ECLAC) reports a real effective exchange rate (in 2005: 100) of slightly above 100 since 2011, at 102.2 in 2019 and 102.8 in 2020. In November 2019, the CPI (in 2010: 100) was 110.96 and in November 2020 110.76. The central bank still exists but plays no significant role other than producing reports on trade, remittances and fiscal policy.

While dollarization has essentially prevented any significant inflationary pressures, government deficits can only be financed through additional public debt obligations. In fact, some of the most contentious yearly legislative debates involve budget and public debt size. Government expenditures as a proportion of GDP have remained quite stable over the last decade at around 16%, while public debt has grown regularly, from 56.6% of GDP in 2009 to 69.4% in 2019.

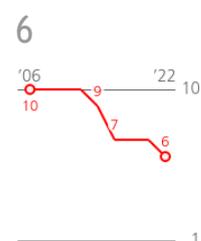
In 2020, public debt increased significantly as a result of additional emergency deficit spending of up to \$3 billion authorized by the legislature to counter the impact of COVID-19: total public debt rose from \$19.76 billion in November 2019 to \$22.65 billion in November 2020, an increase of 14.6%. In addition to the sale of its own bonds, the government of El Salvador received an emergency loan from the IMF for \$389 million and another loan for \$20 million from the World Bank, both in April 2020.

The budget approved for 2021 at \$7.45 billion is 16% greater than that for 2020 and falls short of regular expected income by \$1.18 billion. This gap will have to be covered by additional public debt (although the legislature authorized unused loans from 2020 to be applied in 2021). Credit rating agencies are warning that any substantial increase in deficit spending will make it more difficult for the country, which has a credit rating of B- (according to Fitch Ratings), to acquire loans. According to ECLAC, the deficit of the current account balance diminished slightly over the past decade – with the exception of 2018, when it rose to about \$1.2 billion – reaching \$558 million in 2019 and \$190 million in 2020.

Monetary stability



Fiscal stability



9 | Private Property

The right to property is enshrined in the constitution as one of the fundamental individual rights under the proviso (inherited from past constitutions) that it must contribute to social well-being. A more precise provision in the constitution limits private landed property to 245 hectares; there have been calls to eliminate this stipulation under the claim that large agribusiness investments are thereby discouraged.

Water and mining rights are a contentious political issue. A water law has been under discussion for years now with no end in sight. However, in 2017, new legislation forbade metal mining outright.

In general terms, however, the right to private property is not questioned or debated and procedures for its registration, transfer, and sale have been improved by the introduction of digital information technologies at the government's property registry office. Still, the International Property Rights Index (IPRI) for 2020 ranks El Salvador 100 (between Malawi and Benin) out of 129 countries.

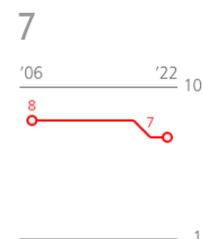
El Salvador's rank in the IPRI is affected negatively by its low enforcement of intellectual property rights (especially software) and its overall legal and political environment (judicial independence, rule of law, corruption). For example, the Business Software Alliance report for 2018 estimates that 52% of software in the Latin American region is unlicensed while in El Salvador the figure is 80%.

The Salvadoran economy operates essentially under private enterprise rules. Since the end of the civil war of the 1980s, the state has mostly retired from running economic enterprises. Its communications and financial services were privatized, as was electrical distribution. The government-owned social security institution turned over management of retirement funds to private concerns in 1998, similar to what Chile has implemented.

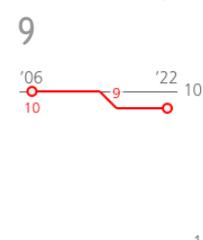
At present, the government's direct involvement in economic activities is limited to the operation of the country's seaports and its only international airport, as well as the national hydroelectric power authority. These are run as autonomous public corporations, although the government chooses the members of their boards.

Under the business-friendly governments of the ARENA party (1989 – 2009), private enterprise was well represented and supported: the property tax was abolished, most import and export duties were reduced or eliminated, government income began to rely principally on the value-added tax, and free trade deals were negotiated with the United States, the European Union, Mexico and a number of Latin American countries.

Property rights



Private enterprise



The accession of governments from the leftist FMLN party (2009 – 2019) did not change this situation in any appreciable way. A few semi-public companies were set up under FMLN direction with financing from the Venezuelan governments of Presidents Chávez and Maduro, including a chain of service stations and a distribution network for petroleum products. However, most of these firms closed after the FMLN's defeat in the presidential elections of 2019 and a lack of additional Venezuelan financing.

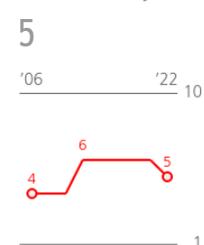
10 | Welfare Regime

Social safety nets exist, but do not cover all risks to all strata of the population. State-funded and -administered medical insurance is mandatory for all formally employed individuals, including resident non-citizens. In 2019, 28.5% of the economically active population was enrolled in the medical insurance program, a proportion which has remained essentially unchanged over the last five years. Those not covered – informal sector workers, domestic help, self-employed individuals – must rely on private medical facilities or the government's free public health clinics and hospitals, which are generally adequate for outpatient situations but usually require considerable waiting periods for non-emergency hospital procedures. Private medical facilities are mostly concentrated in the principal urban areas.

Old-age pensions, for many years managed by a government agency, have been administered by private pension funds since 1998, along the lines of the system introduced in Chile some years before. However, the transition from public to private pension funds placed pressure on the state's contributions and has required a series of stop-gap measures since 2017, involving an increase in contributions and borrowing from private pension funds and elsewhere. As of September 2020, there were two private retirement funds in the country with a total of 686,034 individuals paying into them out of a total of 3.4 million registered people, representing a fifth of the total. Most of those paying into the fund are urban workers in the formal sector.

The government took steps to counter COVID-19's impact on households and businesses. The first measure announced, at the time of the first lockdown, was a one-time \$300 cash transfer to all families, which turned into a logistical nightmare that was never really sorted out; there is still no information on how many people received the money nor regarding how much was disbursed in total. The government also distributed food donations that do not seem to have been well-organized and, in some cases, were handed out as gifts from the political party in power. The members of a commission set up by the government to monitor these assistance programs resigned shortly after the commission's organization because the members did not receive the information it requested. Other government initiatives to counter the impact of COVID-19 included: deferral of basic utility payments and income tax declarations, lowering bank reserve requirements for newly issued loans and a new hospital specializing in COVID-19 cases.

Social safety nets



Since at least the middle of the last century, Salvadoran governments have expressed their commitment to expand opportunities for young people, mostly in terms of support for public education and job training. As a reflection of this effort, the literacy rate has increased steadily: in 2018, 89% of those 15 years of age and older could read (91.1% of men and 87.2% of women). In gender terms, the proportion of female and male students enrolled at all levels of the education system is roughly equal, with women somewhat exceeding men at the university level.

However, enrollment rates clearly indicate that socioeconomic status still plays an important role in education opportunities. Nearly 95% of all students at the primary age level attend school, but only 71.7% attend the secondary level and just 29.5% at the university level. Education costs increase with the second and tertiary level and many young people need to work. Rural populations are especially disadvantaged in this regard.

After completing their studies, young people – even those with a university degree – have a hard time finding jobs in an economy largely based on services, with sluggish growth and high youth unemployment. This is one reason so many Salvadorans consider emigrating in search of better opportunities.

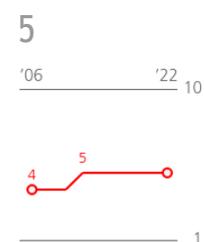
The Global Gender Gap Report 2020 ranks El Salvador at 80 out of 153 countries in terms of gender disparities; women are mostly on a par with men in educational acquisition and health, but are significantly underrepresented in politics, economic participation (42% of labor force) and opportunities. At the same time, women’s reproductive rights are generally respected in terms of access to contraception, as evidenced by the fact that women in El Salvador today have just over two children on average. However, anti-abortion laws are among the most severe in the world.

11 | Economic Performance

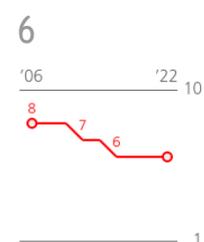
El Salvador’s economy has transformed radically over the last half century: from a traditional exporter of agricultural products (coffee, cotton) and an incipient light industrial sector to a net exporter of population and offshore production goods and a large service sector. It adopted the U.S. dollar as legal tender and receives considerable family remittances. The country has liberalized trade and investment but, nonetheless, has the lowest economic growth rate of any Central American country. The most dynamic sectors of the economy are services (consumption) and construction, both closely tied to remittances.

Since 2013, annual growth per capita has mostly hovered a bit below 2%, but due to lockdown measures is expected to contract by 9.2% in 2020 (ECLAC data). Official unemployment rates seem not very pronounced (about 4%), but do not reflect underemployment and the huge informal sector (nor emigration).

Equal opportunity



Output strength



Despite poor economic performance, GDP per capita (PPP) stood at \$9,140 in 2019, which places the country at the low end of the middle-income category. Since the economy is dollarized, inflation is kept in check (0.1% in 2019). Most imports enter the country free of all duties and contribute to a current account deficit that stands at \$558 million in 2019; the last time the current account was in balance was in 1994. Since 2010, remittances have risen every year and in 2019 they reached \$5.65 billion, equivalent to roughly one-fifth of GDP. In 2020, remittances received until November added up to \$5.27 billion and the total for 2020 is expected to be at least as high as 2019, despite the impact of COVID-19.

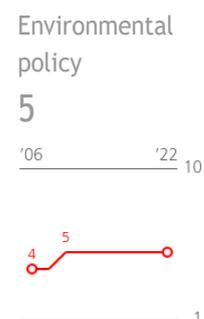
Foreign direct investment in 2018 was \$410 million (1.6% of GDP). In 2019 it rose to \$720 million (2.7% of GDP). Most foreign investment is in the textiles, electricity generation and telecommunications. The country has not attracted more foreign investment due to the limited size of the domestic market, the scarcity of natural resources, and high levels of criminality and social violence.

Slow economic growth together with increased government spending on social programs have placed strains on the government's finances. In 2019, the government's gross debt rose for the sixth consecutive year to 69.4% of GDP. The \$3 billion in additional spending approved in April 2020 to counter the COVID-19 pandemic will increase public debt substantially and credit ratings agencies have warned that El Salvador will have difficulties securing new loans.

12 | Sustainability

While framework legislation (National Environmental Policy, 2012), environmental regulations and incentives have been introduced, they lack consistency and are sometimes subordinated to other seemingly more pressing concerns on the country's political agenda. The Ministry of Environment and Natural Resources (MARN) exists since the 1990s, but its size and budget are hardly in line with the country's environmental problems. With a population that is now two-thirds urban, environmental concerns have shifted to access to energy and water and levels of air pollution. Climate change has increasingly become an issue, due to once-dire deforestation and its consequences.

El Salvador has taken important steps to restore ecosystems and landscapes since 2012 with its Ecosystem and Landscape Restoration Program, and has also taken the lead at the regional and international levels to stimulate action and implement restoration commitments. As part of the Bonn Challenge, El Salvador committed to restoring one million hectares by 2030, half of its total area. The restoration strategy is an integrated policy that involves national and local laws and institutions, as well as stakeholders (from public institutions to local actors). By 2020, actual results are somewhat behind target, but evaluations of the sustainability of the approach – such as the Sustainability Index for Landscape Restoration – show solid qualitative progress.



Water is becoming a scarce resource, due to very high levels of agricultural and industrial use, contamination of surface waters and a rapid decline of water table levels as a result of overexploitation. At present, no town or city in the country has sewage treatment plants in operation. A proposal for a water law has been debated over the last 10 years with no end in sight. The main point of contention has been the role of private interests in the use of water resources and the constitution of the proposed national administration to regulate their use. Many areas of the country, both rural and urban, already experience moderate or severe water scarcity.

Air pollution is particularly severe in San Salvador, the capital city, as a result of a dramatic increase in private motor vehicle ownership and a poor (and sometimes dangerous) urban transport system. Emission controls are practically nonexistent.

There has been an increased reliance on fossil fuels for electrical generation since the country's only river with hydroelectric potential is already exploited to capacity. The country also generates electricity from geothermal sources, but solar power holds more promise as the costs of solar panels decline. A number of solar power projects have begun operation, funded in part by the Inter-American Development Bank, the Overseas Private Investment Corporation (OPIC) of the U.S. government and various European sources.

Education policy has long been focused on achieving maximum enrollment at the primary level (grades 1 – 6). This has resulted in near-total school coverage for elementary level students while enrollment at the secondary level is around 70%. However, these levels of enrollment come at a price: the school day for students at public schools is only 4 to 5 hours long because they operate on a two-shift system (morning and afternoon). In the 2019 UN Education Index, El Salvador ranked 82nd (out of 133 BTI countries listed) with a score of 0.555, between Zambia and India.

Government spending on education was 3.9% of GDP in 2015 and has declined every year since, to 3.6% in 2019. Repeated calls have been made to raise the proportion to 5–6% to improve education. Elementary education absorbs about 60% of public funding, while 30% is assigned to secondary education and 10% to higher education (universities and technical training schools). As a consequence, a majority of students at the secondary and university levels study at private institutions, which are beyond the means of many families. Thus, educational achievement is still linked to high social and economic status. One important result of efforts to improve education is a high literacy rate: nearly 90% among the population over 15 years of age, with a youth literacy rate of nearly 98%.

In general terms, the education system is highly skewed toward the elementary and secondary levels. The enrollment rate in higher education in 2020 was only 31.1% for women and 27.5% for men. Higher education institutions are engaged mostly in teaching in the fields of law, administration and the social sciences.

Education policy /
R&D

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Serious research is carried out in only a handful of universities, mostly in the medical and social sciences. There is very little basic scientific research. Overall investment in R&D (universities, business, government) is insignificant: according to UNESCO, gross expenditure on research and development in 2020 was around 0.2% of GDP.

Governance

I. Level of Difficulty

Structural constraints to governance are fairly high and result from a combination of diverse social, economic and political-structural factors, including a shift from an agriculture- to a service-centered economy, from a predominantly rural to a predominantly urban population, and from high population growth rates to an increasingly aging society. It is becoming apparent that declining fertility rates – from an all-time high of 6.7 live births per woman in 1963 to 2.0 in 2021 and a projected decline to 1.7 by the mid-21st century – will place additional demands on social services as a large share of the population enters retirement age. The largely privatized pension funds struggle to meet their obligations in a slow-growing economy.

Emigration and remittances have allowed many families to escape poverty. The flip side of massive emigration is the breakup of families and many family units headed by single parents (mostly women). Children living with relatives who are not their parents may be at particular risk of becoming involved in gang-related violence and criminal activity. This is linked to another constraint, namely the high level of social violence (murders, kidnappings) associated with gangs and organized crime, which erodes social trust and imposes enormous economic costs (estimated at 16% of GDP).

The education system is chronically underfunded and has been unable to provide the skills and knowledge needed for technologically complex production chains. As a result, most employment opportunities in the formal productive sector are for low-skilled workers in the service sector and offshore production (maquila). Those with special talents and professional ambitions – especially college graduates – attempt to migrate abroad in search of opportunities.

Natural disasters – earthquakes and related landslides, as well as flooding in low-lying coastal areas – are a constant threat. The country's only functioning seaport dates from 1962 and has no facilities built specifically for container traffic; an expensive container port in the east of the country has sat idle for more than a decade due to unforeseen technical and concession difficulties.

The COVID-19 pandemic is expected to have contracted the economy by 8.7% in 2020. The first wave of the pandemic peaked at about 450 new cases per day in late July 2020, dropped to 80 cases in mid-August, and rebounded to about 300 cases per

Structural
constraints

7



day in December 2020. By the end of 2020, just over 1,300 people had died from COVID-19 (although there are doubts about the accuracy of the government's published data on COVID-19). The economic downturn is certain to push more people into the informal sector, which has already ballooned to about 65 – 70% of total employment, limiting provisions of social services and increasing social inequality.

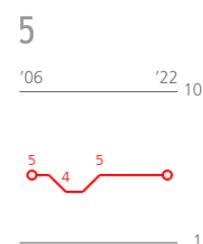
Autonomous civil society organizations (CSOs) and social mobilization were only possible after the end of the civil war in 1992 and the establishment of a liberal democratic political system. Prior to that, most CSOs were repressed and criminalized by successive governments during the civil war of the 1980s. After a period of relatively high activism in the 1990s, civil society has become more focused on a number of issues, while political parties and new public institutions have come to replace CSOs as a path for citizens' expressions of concern and advocacy. Many individuals involved in civil society organizations became active in political parties or were appointed to positions in government (especially during the years of FMLN presidents from 2009 to 2019).

CSOs' central concerns involve women's reproductive rights, defense of the environment (recycling, green energy, water management), and maintaining ties between towns and villages and expat Salvadoran communities, including funds for local development projects. Other CSOs are engaged in anti-corruption drives and gender equality and LGBTQ+ rights. The work of CSOs and civil society in general has become difficult since President Bukele assumed office in mid-2019. He has attacked a number of organizations for criticizing his government and receiving funds from abroad to finance their operations. He ordered an audit of the main digital newspaper, a not-for-profit that specializes in investigative reporting.

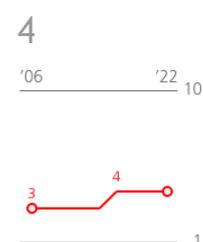
After twelve years of civil war (1980 – 1992), political differences are settled largely through the ballot box, social debate and participation in managing government institutions. At the same time, social violence – interpersonal conflict, gang warfare, criminal activities – is high, with peaks in homicide rates among the highest in the world, at 103 per 100,000 inhabitants in 2015. Since then, however, homicide rates have dropped significantly to 36 per 100,000 in 2019 and to 19.8 in 2020.

What has increased noticeably is political confrontation. Bukele became president when the opposition controlled the legislative body (due to staggered terms for president and legislators) until May 2021, when the new legislative body takes over. Bukele's rhetoric and actions have become increasingly confrontational. On February 9, 2020, he led a brief takeover of the legislature using the police and military to demand approval of an international loan to buy equipment for the police and the army. Subsequently, the legislature required reporting on special budget expenditures for COVID-19 relief, which Bukele has mostly refused. He has accused legislators (and the Supreme Court) of trying to undermine his handling of the pandemic and holds them responsible for coronavirus-related deaths. He also refused to sign certain pieces of legislation, even after the legislature overrode his veto. Bukele won the

Civil society traditions



Conflict intensity



presidency with 53% of votes in March 2019, achieving this mostly by the intensive use of digital media, and by convincingly blaming the traditional parties (ARENA and FMLN) for all the country's woes. His style is clearly populist, combining personal charisma with promises of simple solutions to complex problems.

II. Governance Performance

14 | Steering Capability

Shortly before he was elected to the presidency in March 2019, Nayib Bukele presented a hastily prepared program for governing that he promised to implement. It included a number of very expensive public works projects (a high-speed railroad, a second international airport, an ambitious beach-surf tourism complex) and some administrative reforms, including the introduction of comprehensive digital bureaucratic procedures and a new organization of government departments that would improve efficiency. In line with his attacks on the corruption of former ARENA and FMLN governments, he promised to create an anti-corruption commission along the lines of the International Commission against Impunity in Guatemala (CICIG). He also insisted that he would end violence by combating gangs head on.

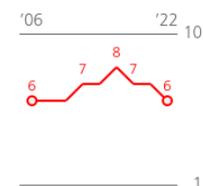
All of this went over very well with the electorate, but the projects faced the chronic limitations of all Salvadoran governments: a lack of sufficient funds and limited administrative and technical capacities to plan and implement. Bukele ignored these facts and insisted that if corruption were weeded out, there would be enough resources to achieve all he promised, with a new generation of people and ideas he would bring into the government. When COVID-19 struck, everything was put on hold while the government sought monies to fight the pandemic and its socioeconomic repercussions. Once the pandemic is over, there will still be a lack of strategic government thinking. Even the large public investment projects have not been thought out properly.

Neither President Bukele nor his closest advisers seem prepared to develop policy for the long term. They are all much involved in achieving short-term objectives as political operatives; some initial cabinet members have already left to run for office as legislators and mayors. Nor does the president have any seasoned senior advisers who can advise on how to achieve continuity with successful past government initiatives. In February 2020, Bukele invited a Harvard University professor to help create a multidisciplinary commission to establish development priorities, restructure government operations and involve different economic agents. To date, nothing has come of this.

Question
Score

Prioritization

6



1

All governments in El Salvador have difficulty implementing policy due to limited financial resources and the absence of a qualified civil service staff. High-level government officials come and go with changes in government, which is normal in Western democracies, but mid-level personnel are also moved or removed, and this makes for difficult transitions from one government to the next. In Bukele's case, special effort was made to break with as many policies and projects of past governments as possible and replace mid-level appointees with new, mostly inexperienced people from the president's party, Nuevas Ideas. Of the unclearly defined priorities mentioned in his government plan, reduction of homicide rates is the one achieved, though critics doubt that this success has been the result of a thorough policy implementation (see "Monopoly on the use of force"). While Bukele installed an anti-corruption commission (CICIES; see "Anti-corruption policy") by agreement with the Organization of American States (OAS), it had only limited powers (and was terminated by the government in June 2021).

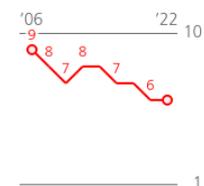
The onslaught of the COVID-19 pandemic has placed considerable burdens on the new government and challenged its creativity and adaptability. The constant confrontation between the president and the legislature means that, to date, no legally binding and comprehensive public health measures to contain the epidemic have been put in place, with the legislature passing its own bills and the president enacting his. Still, the legislature has authorized most of the emergency loans the executive has requested to build hospitals, purchase medical supplies, distribute food and provide cash subsidies. Many of these purchases have occurred outside the regular bidding process, as allowed for under emergency conditions. They have however resulted in a considerable number of investigations of corrupt practices favoring friends and relatives of government officials.

As of now, the Bukele government demonstrates little policy learning ability. Due to his political socialization, Bukele increasingly blames the formerly dominant parties FMLN and ARENA for all the country's ills and rejects established policy procedures. He has insisted on his right to govern without legislative approval, especially after the onset of COVID-19, and he ignores rulings by the Supreme Court. He has refused to provide reporting on spending on COVID-19-related purchases. The commission he set up to monitor government spending on the pandemic disbanded shortly after its creation because its members received none of the reports they requested. He also has reconstituted the office that provides access to public information in order to hinder its operation.

The only sign that the current government is attempting to think through policy was an invitation in February 2020 to Harvard University Professor Ricardo Hausmann to bring together a team of Salvadoran experts to design a strategic plan for economic recovery and government reform. Nothing has come of this and probably will not, unless political confrontation levels lessen and constitutional processes are guaranteed so as to persuade qualified individuals to support the government with their expertise.

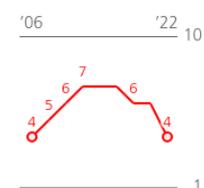
Implementation

6



Policy learning

4



All in all, the first year and a half of Bukele's government has been characterized by political confrontation between executive and legislative branches of government that distracts from substantive issues that must be addressed, such as the COVID-19 pandemic itself, economic recovery and environmental issues. All of these require creative approaches to government policy but also a focus on routine, administrative procedures, which a new cohort of political appointees has upended in many instances.

15 | Resource Efficiency

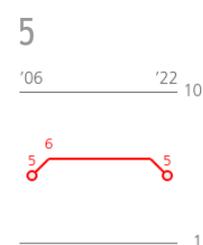
Employment growth in the public sector has been a constant since 2000. The number of new hires in 2020 was a little over 1,000. In the previous five years growth, it was between 3,000 and 4,000 annually. Public employment is always highest in the social sectors. Of a total of 184,197 government employees in 2020, 28.9% were in education, 16.5% were in health care and 20.3% were in justice and public safety. These three ministries represent approximately two-thirds of all government employees. Government employee salaries represented 41.3% of all government expenditures in 2020, up from 38% in 2017. However, transfers of funds to other public institutions and offices (municipalities, for example) would increase public salary outlays.

In theory, appointment to public office is based on merit and competence, but political connections weigh heavily on hiring decisions; card-carrying membership in the party in power improves chances that a person will be hired or promoted. President Bukele's first days in office were full of tweets in which he publicly ordered the sacking of numerous government officials with ties to the FMLN.

The government's budgets have been unbalanced over the last few decades, especially since 2011, when pension funds were insufficient and required injections of public monies. Public debt has risen from \$12.9 billion in 2011 to \$16.6 billion in 2015 and then to \$19.8 billion in 2019. It is expected to rise dramatically in 2020 as a result of \$3 billion in loans to mitigate the COVID-19 emergency; it could rise as high as 89.4% of GDP, according to Fitch Ratings, greatly exceeding the 70% of GDP registered in 2019.

The considerable increase in spending during 2020 has raised concerns about mismanagement of funds. The government's auditing office has been notoriously incapable of uncovering malfeasance. It has been run by political appointees who are committed to cover up corruption as part of deals made among parties. President Bukele's appointment of an anti-corruption commission has yet to produce results, while independent journalists have discovered numerous cases of fraudulent purchases benefitting friends and relatives of government officials, especially in cases of funds for COVID-19 programs.

Efficient use of assets



In general terms, public administration has improved somewhat over the years as a result of the introduction of computer technology and internet access. Citizens now can interact more easily with any number of government offices than before. Some administrative procedures take less time than before but others are still awaiting modernization.

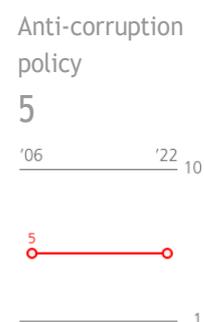
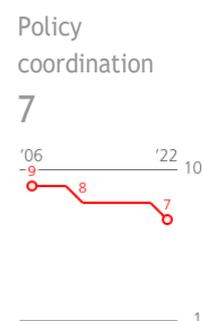
During his election campaign in early 2019, President Bukele announced he would introduce a new approach to governing. There would be increased use of digital resources to provide precise, prompt information to decision-makers and, thus, greater efficiency in achieving results. Bukele himself envisioned an executive office full of computer screens displaying the latest statistics on all aspects of the country's situation. He also proposed a new approach to coordinating government operations by setting up interministerial committees to work together on specific issues. However, since he has yet to present his first constitutionally mandated yearly report to the legislature (it was due on June 1, 2020), it is difficult to determine if anything has been implemented along these lines.

Instead, the government is still heavily presidential in its operation. Bukele has taken to using his Twitter feed to announce his decisions, as well as to criticize the legislature, the Supreme Court, the opposition parties and the independent media. Political debate, in turn, mostly concerns COVID-19 and the president's struggle to get his way in the face of opposition from the legislature.

In general, 2021 will be a year for a "reset" of government policy objectives through negotiations and political outreach or a continuation of confrontations that debilitate the democratic system and undercut efforts to tackle the country's most serious problems in inclusive and coordinated ways. One advantage the Bukele government has is the decline in violence which, if maintained, will remove one of the most rancor-causing political issues and allow for refocusing government priorities.

Corruption in government has been a constant for a long time in El Salvador and government institutions designed to prevent it have not done their job. Kickbacks for granting contracts for public works and other government-funded activities are a common practice. Monies obtained in this manner finance election campaigns and buy political loyalty. A law passed in 2000 subjects all government contracts and acquisitions to specific procedures that attempt to prevent corrupt practices by making bidding procedures more transparent and establishing stiff fines for violators. However, recurring cases of unfinished public works and non-compliance with contract obligations indicate that these practices continue.

Since the late 1930s, a government audit office (the Corte de Cuentas) has been charged with detecting fraud and malfeasance in public spending. However, its leadership was appointed after political negotiations that, in effect, prevent it from doing its job properly. For example, it cleared Presidents Saca and Funes of wrongdoing after they had left office; both were later accused of multimillion-dollar embezzlement schemes, which should have been detected at the time.



President Bukele was elected overwhelmingly in 2019 in good part because of his public repudiation of corruption associated with governments headed by “traditional” politicians. In November 2019, his government signed an agreement with the OAS to set up the International Commission against Impunity in El Salvador (CICIES). However, in contrast to the CICIG experiment in Guatemala (under United Nations sponsorship), the Salvadoran commission has only a limited role of providing support and advice to national prosecutors and no authority to initiate investigations. (In June 2021, the government terminated the CICIES.)

What is particularly worrisome is that 2020 was a year when the government spent enormous sums of money on COVID-19 prevention and relief from \$3 billion in emergency funds the legislature authorized. Under the state of emergency, normal bidding processes were suspended. The government has not responded to legislative demands to explain and document purchases of medical equipment, building contracts and monetary subsidies to families affected by unemployment, in addition to the monies it disbursed to compensate for shortfalls in government income.

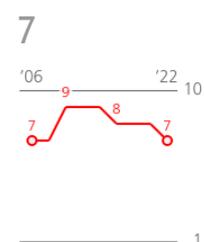
The attorney general’s office has initiated several investigations, but the scope of government spending is such that it will take time with the resources currently available to determine how much malfeasance has taken place. The government also restructured the office in charge of access to public information, making it more difficult for investigative reporters to do their jobs. In addition, the Supreme Court’s probity chamber is charged with registering asset declarations of government officials, but not all officials have complied with this requirement.

16 | Consensus-Building

Since the signing of the Peace Accord in 1992, El Salvador has been the only Central American country (besides Costa Rica) with an unblemished record of political stability and regular change in governments. This is the result of an agreement among political elites to respect electoral cycles and outcomes, as well as monitoring by the international community. It has also meant that the legislative and judicial branches of government have exercised their respective powers and jurisdictions for the first time ever in the history of the republic.

Nevertheless, this consensus has weakened. Over the last two years, the legislature and the Supreme Court have practiced oversight and judicial review as never before, especially after the election of Nayib Bukele as president in March 2019. It can be argued that legislative and judicial activism reflect a political opposition in control of the legislature which is posturing for political advantage in anticipation of legislative elections in February 2021. This may be so, but the fact is that Bukele acted in an autocratic fashion when he assaulted the legislature in February 2020, disregarded bills the legislature approved and rulings by the constitutional chamber of the Supreme Court. His cabinet ministers have refused to appear before the legislature when required to do so and he himself has not presented his annual report on the state of the country, as required by law.

Consensus on goals



Overall, Bukele believes that his strong election victory for president in 2019 empowers him to act unilaterally, disregarding constitutionally mandated processes. To put it in other terms, he is in a hurry to get things done and cannot be bothered by parliamentary debates and opposition legislators, especially when it comes to COVID-19 prevention measures. This attitude also underpins his planned reform of the constitution, without any clear indication of what might result.

All El Salvador's political forces are committed to a free, socially responsible market economy. Even the leftist FMLN party proved its free-market credentials while occupying the presidency over ten years (2009 – 2019).

However, the economy performs very poorly. A diversified export base would increase investment opportunities and generate employment. Reliance on remittances, which constitute up to one-fifth of GDP, has contributed to a growth in consumption and a service sector heavily reliant on imports. A by-product of remittance flows was the decision to dollarize the economy in 2000, which stymied inflationary tendencies, but limits the government's fiscal and monetary policy options. Moreover, social violence has discouraged potential investment (foreign and national) and weighs heavily on the economy in terms of security expenses and extortion payments demanded by gangs.

But none of the above has placed in doubt the overall acceptance of a market economy as the best way forward. Nor has the government of President Bukele, despite his political confrontations and ambitious public investment projects, given any sign of changing the country's economic orientation.

The Peace Accord of 1992 was a compromise to end the civil war by establishing a democratic system of government that has remained largely unchanged since then. However, after nearly 30 years in existence, the democratically organized government – regular elections, separation of powers, accountability, freedom of the press – has been subject to great strains for not fulfilling voters' expectations. This explains Nayib Bukele's resounding electoral victory in the presidential elections in March 2019.

President Bukele has largely limited his criticism to individuals and political parties associated with past governments, blaming them for not doing enough to improve the lives of the population and engaging in deals and corruption that only benefited them. Although the show of force when he stormed the legislature did not succeed, he has continued to insist that his high levels of approval, measured in the contents and volume of his Twitter account and some public opinion surveys, allow him to proceed with disregard for constitutionally mandated procedures and obligations.

The COVID-19 pandemic emergency presented Bukele with further opportunities to act unilaterally, ignoring Supreme Court rulings and bills passed by the legislature regarding lockdown measures. The legislative and municipal elections scheduled for

Anti-democratic actors

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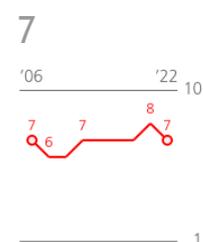
February 28, 2021, will likely give him majority control of the legislature and facilitate implementation of his announced intention of reforming the constitution. One change observers frequently mention is lifting the prohibition on immediate presidential re-election, while another concerns the procedures for electing members of the Supreme Court's constitutional chamber. All these potential changes are worrisome and should alert both national and international actors to the dangers to democracy that lie ahead.

El Salvador's main cleavage is class-based, exemplified by the civil war in the 1980s – the most traumatic event in recent memory – linked to political and economic exclusion. This division is still present, but governments have prevented subsequent conflicts from escalating, except for gang-related violence. Since the 1992 Peace Accord, both the left and the right have accommodated this social conflict in democratic political competition, which has pacified it. These efforts were aided by massive emigration (and a subsequent high number of remittances that further supported the mitigation of cleavages). Nonetheless, inclusive efforts during the last FMLN government came to a halt with the Bukele administration, which added – at least rhetorically – a new conflict component between the old “war” forces and the “new” generation he supposedly represents. His election represents the arrival of a new generation of political leadership beholden to Bukele, a generation made up of young people born during or after the civil war. Nevertheless, the population that supported Bukele also includes a significant number of elderly voters who traditionally identified with the FMLN and ARENA.

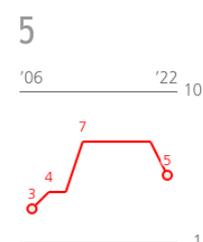
Civil society actors were particularly active in the decade after the end of the civil war in 1992. Subsequently, more institutional channels of political and social participation (political parties, government agencies and programs) took hold and sidelined a number of civil society initiatives. Sometimes, when a particularly important policy initiative was under consideration, previous governments convened leaders from civil society to participate in devising policy and to provide legitimacy to their efforts, as was the case with the national commissions on education and public safety under FMLN President Sánchez Cerén. However, under the Bukele administration there has been practically no consultation with civil society organizations, which is consistent with his personal governing style.

Governments have generally jealously guarded their prerogatives, and civil society has mostly been critical of government performance. Recently, the breach between the government and civil society has widened noticeably. President Bukele has come under particular criticism for violating constitutional procedures and administering public monies without proper auditing during the pandemic and he, in turn, has criticized a number of civil society organizations for pursuing an agenda that, he claims, is inspired by and funded from abroad. He has been particularly critical of journalists who work for independent media.

Cleavage /
conflict
management



Civil society
participation



Reconciliation has been very difficult for a country that suffered over 70,000 non-military violent deaths during its twelve years of civil war (1980 – 1992) and an equally large number of homicides since then, associated with gangs and crime organizations. Until recently, it was not possible to prosecute individuals who committed human rights violations or mass killings during the civil war because of a blanket amnesty law approved in 1993. However, in 2016, the Supreme Court ruled that the amnesty law was unconstitutional and that prosecutors should proceed with cases which had been held up for years.

Some of these cases involve individuals or small groups, but others encompass entire communities. Among the former is the case of six Jesuit priests and their two housekeepers murdered in 1989. Among the latter, the most terrible is the massacre of nearly one thousand people, mostly women and children, in El Mozote in 1981. The Salvadoran military were involved in both and have gone to great lengths to suppress evidence and to prevent individual officers from appearing in court. Some advances have been made – a local Salvadoran judge has opened a case against high-ranking officers, a court in Spain just condemned one of the officers involved in the death of the Jesuits – but the number of human rights violations is so great that it will be materially impossible to prosecute only a fraction.

President Bukele announced at the beginning of his presidency that he would require the army to provide all the available evidence to judges and prosecutors, but he has since backed down claiming that, in the case of El Mozote, there is no more information to be had in the army’s files. He has even claimed that the civil war and the peace agreement were “scams” that only benefited those in government and the guerrilla chiefs. His strategy is, precisely, to distance himself from the war and claim that his is a “postwar” government that owes nothing to ARENA or the FMLN.

In general, the Bukele government is not interested in reconciliation because it claims to have no responsibility for what past governments and insurgents did, while ignoring that little has been done to heal the hurt among survivors, many of whom have not been able to gain closure with regard to the fate of relatives who are still unaccounted for or to overcome their lingering personal trauma.

17 | International Cooperation

Up until 2019, the governments of both ARENA (on the right) and the FMLN (on the left) were generally committed to promoting economic growth in the private sector and channeling government spending toward social programs, especially education and health. These priorities were generally in line with the concerns of the country’s principal foreign donors: the United States and the European Union. In the case of the United States, economic growth and employment opportunities were associated with a broad strategic objective of reducing illegal immigration to the United States, while the European Union focused on youth development programs and support for small- and medium-sized businesses and cooperatives. Foreign aid monies spent on specific development projects were properly monitored and audited by both donors and the Salvadoran recipients.

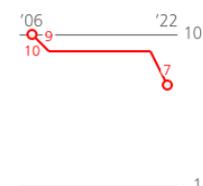
Reconciliation

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Effective use of support

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The Bukele government has not clarified its strategic development objectives other than what appeared in its electoral platform, which emphasized infrastructure: a high speed rail link, a second international airport and a development program for the country's northern region. President Bukele visited China and Qatar shortly after taking office in search of investment and economic aid, but at the end of 2020 no agreements had been signed to that effect. In fact, it is difficult to identify the Bukele government's "development strategy," both because it has not been spelled out except in very general terms (violence reduction, infrastructure, tourism, pension fund reform) and because the COVID-19 pandemic absorbed most funds otherwise available for development projects.

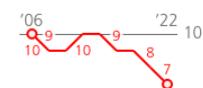
If the past is any indication, the government of El Salvador under President Bukele will continue to honor its obligation as a signatory of the Paris Declaration on Aid Effectiveness, which establishes priorities for development agendas in consultations between donors and recipients, including local civil society organizations. However, the contentious relationship between the government and civil society organizations needs to be resolved before aid agencies will feel confident that international cooperation can be put to effective use.

The governments of El Salvador have generally been consistent in honoring their international commitments. They have complied with trade agreements and paid debt obligations on time, and also complied with WTO decisions involving disputes. They have honored the Peace Agreements of 1992 and respected democratic political norms. Some accords still have to be implemented. For example, El Salvador signed the Paris Climate Agreement but has yet to enact pollution or emission regulations for motor vehicles. Its governments are committed to respecting human rights, but have been singled out for violating due process, especially in cases of juvenile arrests and incarcerations connected to the fight against gangs. They have also failed to comply with international demands that they support judicial procedures for victims of the country's civil war, in which the army was involved.

President Bukele has been in office for only one and a half years and he already has created uncertainty with his abrupt decisions and accusations against political rivals and the unaccounted use of funds spent on COVID-19 relief. Most significant is his disdain for democratic and constitutional provisions regarding freedom of the press, the separation of powers and respect for judicial decisions. While Bukele's actions do not necessarily have a direct impact on foreign assistance programs, they do create confusion about where the country is headed. The assistance program for Central America proposed by the incoming Biden administration in Washington, DC will also influence the Salvadoran government's priorities vis-à-vis foreign aid and its own governance.

Credibility

7



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To date, Salvadoran governments have treaded carefully in a Central American region, which recently has been particularly unstable, but within which El Salvador is firmly integrated in terms of trade and investments. El Salvador imports a considerable proportion of its food from Guatemala and Nicaragua and Salvadoran companies have invested heavily in neighboring countries. Thus, the maintenance of trade and capital flows is vital as well as the movements of migratory workers, especially in times of coffee and sugar harvests.

The commitment of successive Salvadoran governments to regional integration and cooperation is unquestionable. The main offices of the Central American Integration System (SICA) are located in San Salvador; SICA provides coordination and expertise for continuing Central American integration, which now includes a regional development bank, a Central American parliament and migratory agreements (the so-called CA-4, on hiatus during the COVID-19 pandemic).

Before he was sworn in as president, Bukele created a ripple when he openly criticized the Honduran and Nicaraguan governments (and by extension that of Maduro in Venezuela) for being dictatorships, although this has not affected trade between El Salvador and the other two countries (they all need it). He has also criticized and questioned the governments of Costa Rica and Guatemala regarding their measures to manage the COVID-19 pandemic. All in all, there would be no advantages to Bukele, his government or the country should he provoke a crisis or misunderstanding with neighboring regimes.

Regional
cooperation

10



1

Strategic Outlook

For many years, it was said that El Salvador's main source of wealth was its population. That made some sense when the principal exports – all of them agricultural – required abundant labor to plant and harvest and the majority of the population lived in the countryside. Today, with two-thirds of people living in urban centers and a considerable number living abroad, the country's population dynamic has changed irrevocably, along with its economic profile. Some of these changes are well underway and their future tendencies can be predicted with relative certainty.

While the agricultural export sector is in decline, rural areas continue to be vitally important as sources of water and some foodstuffs for urban consumption. The protection and conservation of watersheds is also vital for the sustainability of the country's hydroelectric dams. In fact, about one-half of the country's territory is part of one single watershed. Despite progress, the country needs an enhanced reforestation program to protect its remaining topsoil and replenish its watersheds, and to contribute to the fight against climate change. It also needs to bring wastewater disposal under control to clean up its rivers and lakes. If this is not done, many future promising activities, such as tourism and irrigated farming will not be fully possible.

Population growth has been slowing over the last 50 years as a result of declining fertility while people are living longer. Projections should therefore define education and health policies for the next generation. Decisions that must be made involve the types of education that should be prioritized: vocational/technical, university, health sciences, administration (including civil service) and engineering. Higher education has been criticized for producing too many graduates who cannot find a job commensurate with their expectations or efforts or who are simply underqualified.

The country's emigration phenomenon needs to be reassessed. While remittances from emigrants provide additional liquidity for a dollarized economy and help cover the current account deficit, emigration cannot continue forever. The Trump administration's border policy is a warning with regard to this. The country needs to prepare for a substantial decrease in emigration and remittances over the next decade. The good news is that the incoming Biden administration will attempt to reform immigration law and allow undocumented Salvadorans already in the United States to legalize their status. The Salvadoran government needs to prepare for intense engagement with United States authorities, underline its commitment to improving social and economic conditions inside the country and thus provide assurances that undocumented migratory flows will significantly decrease.

The most visible symptom of El Salvador's shortcomings is social violence as measured in still-high homicide rates, especially among urban youth and young adults in gangs. Gangs are the final option for individuals who have no real family, no access to education or employment and no chance of being accepted in mainstream society. Abundant resources are being used to contain them: police, soldiers and jails. At the very least, the country's leadership – political, academic, entrepreneurial, professional – must ask itself if this is the right approach to produce positive, timely outcomes or if it is only an improvised, short-sighted holding operation without assurances that things will improve over the long term.

The COVID-19 pandemic has had a heavy impact on the economy, which will have contracted by 8 – 9% in 2020. Fortunately, remittances have not declined at all and will continue to sustain many families. But recovery will be difficult. The government has no monetary policy levers at its disposal due to the dollarized economy and borrowing will become increasingly difficult and expensive. A rather good sign is that, although initially not enough COVID vaccines could be procured to quickly immunize most people, by mid-June 2021, 15.1% of the population was already fully immunized, making El Salvador fourth in Latin America and the Caribbean behind Chile, Uruguay and the Dominican Republic. Nevertheless, the effects of the pandemic will continue to be strongly felt during all of 2021 and, most likely, well into 2022.