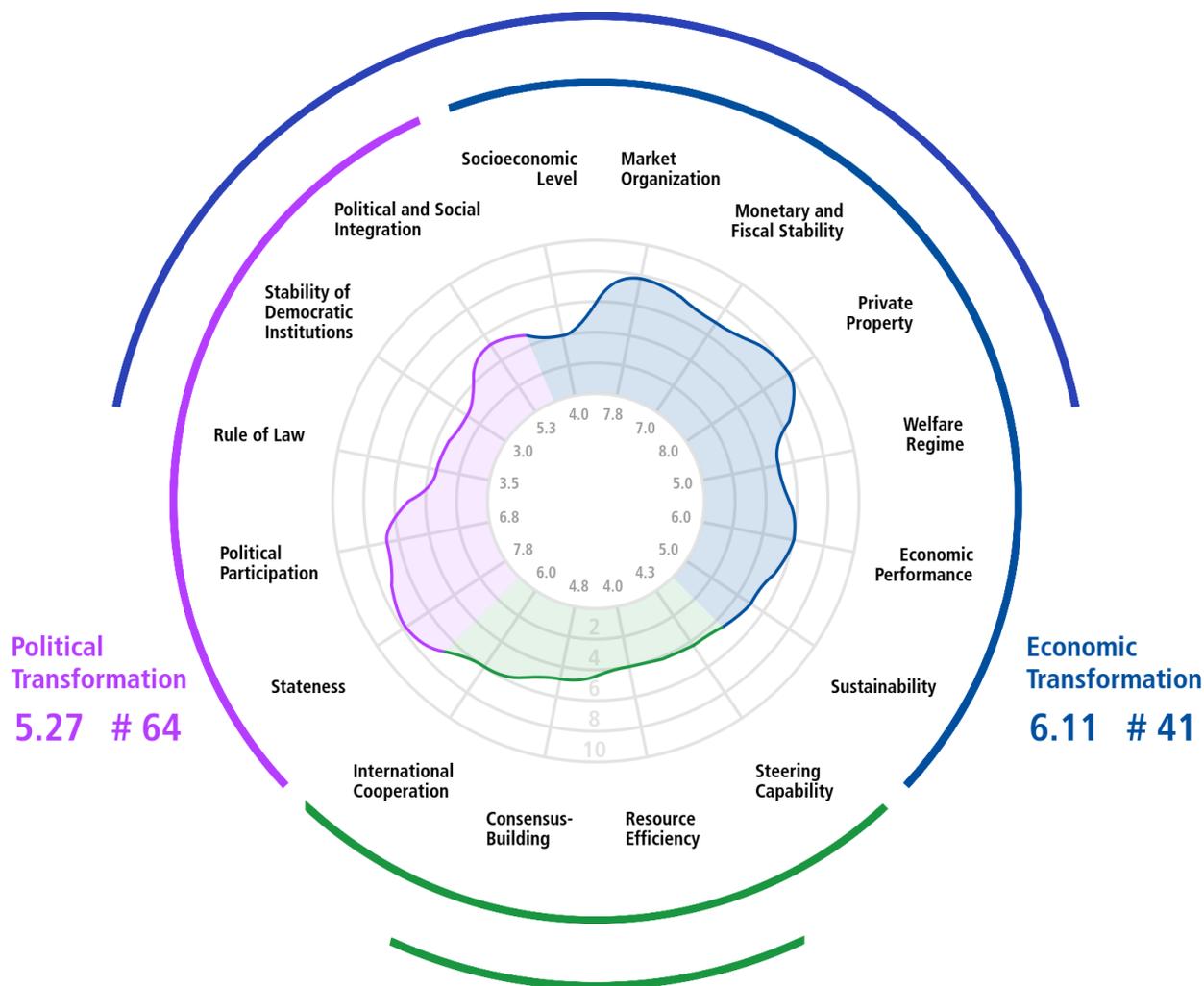


El Salvador

Status Index

5.69 # 57

on 1-10 scale out of 137



Political Transformation
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on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2024**. It covers the period from February 1, 2021 to January 31, 2023. 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	6.3	HDI	0.675	GDP p.c., PPP \$	11096
Pop. growth ¹	% p.a.	0.4	HDI rank of 189	125	Gini Index	38.8
Life expectancy	years	70.7	UN Education Index	0.590	Poverty ³	% 8.6
Urban population	%	74.8	Gender inequality ²	0.376	Aid per capita \$	33.7

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

President Nayib Bukele's campaign promises to enhance the state's efficiency and responsiveness to citizen demands were challenged when COVID-19 struck. Bukele's government declared a state of exception, bypassing legislative consent and enabling the suspension of regular bidding procedures and public audits. Stringent lockdown measures were implemented, cash stipends were provided to hundreds of thousands of families, and emergency funds were allocated for new hospitals.

The successful pandemic measures contributed to a second victory for Bukele's Nuevas Ideas (New Ideas) party and pro-Bukele parties in the legislative and municipal elections of March 2021, opening the way for largely unopposed one-party rule. As a first action, the majority government replaced all judges of the Constitutional Chamber of the Supreme Court, as well as the attorney general, with Bukele loyalists. Thus, no laws or decrees would be declared unconstitutional, nor would any government opponents have fair recourse to the judicial system. Four months after assuming their posts, the new judges ruled that Bukele could seek immediate re-election – despite this conflicting with the constitution.

A second set of legislative actions authorized the government to operate with high levels of deficit spending, with the government projecting a deficit of \$1.14 billion in 2023 and debt covering income shortfalls associated with COVID-19. However, the big infrastructure projects initially announced by the government (high-speed rail infrastructure, a new international airport, regional development programs) have not gotten off the ground due to limits on new borrowing. Hence, the government introduced Bitcoin in mid-2021 as legal tender, arguing that it would increase the population's access to financial services, promote economic growth and increase national wealth. The government also announced that it would sell Bitcoin-denominated bonds to finance public investment. However, these initiatives have proven largely unsuccessful. Overall, the economy continues to perform poorly, partly due to sluggish export growth and continuing heavy reliance on imports. Additionally, there is no government policy to rein in deficit spending.

A third important government initiative has been the crackdown on suspected gang members following a peak in weekend homicides in March 2022. The legislature approved a “state of exception” that permitted the police and army to arrest and incarcerate individuals without any formalities. By the end of 2022, 60,000 individuals had been imprisoned, of whom over 3,000 were released due to a lack of evidence. The government attributes the decrease in homicides to its zero-tolerance measures, but critics emphasize the simultaneous weakening of the rule of law. These three measures can be construed as a kind of national development policy that will supposedly assure rapid responses by an unbound government in the face of any eventuality or opportunity; guarantee high levels of security that will translate into increased investment flows, foreign tourism and economic growth; and provide opportunities for Salvadorans who want to participate in money-making schemes like Bitcoin. However, they all involve high levels of uncertainty, as evidenced by the disregard for constitutional procedures and the abrupt introduction of unproven economic measures.

The democratic system is breaking down under one-party rule. Checks and balances on government operations are now reduced to investigative reporting by independent media – some of which are still relatively free to operate. The army is now making a comeback as part of Bukele’s security plans. To cap it all off, public opinion surveys consistently give Bukele and his government very high marks for their achievements.

History and Characteristics of Transformation

The Salvadoran government was run by military officers for nearly half a century, followed by a civil war (1980 – 1992) and a negotiated peace that established a functioning liberal democracy for the first time in the country’s history. The resulting political leadership – on the right and on the left – agreed to abide by constitutional standards that provided for competitive elections and a market economy. However, the peace accord did not address the economic and social problems that gave rise to discontent and open conflict in previous decades. For the next 30 years, political debate centered precisely on the role of the state in promoting economic and social development.

The ARENA party on the right governed until 2009, leading to the privatization of most banks, the introduction of the U.S. dollar as legal tender and the liberalization of trade. After the leftist Farabundo Martí para la Liberación Nacional (FMLN) assumed the presidency in 2009, the government shifted its focus toward assisting the disadvantaged sectors of the population through increased spending on education and health. Additionally, the government provided support for pension plans, which further strained government finances. By 2017, government debt and budget deficits had reached an unsustainable level, leading to the passage of a law that required the government to prepare budgets with limits on deficit spending and indebtedness.

The economy grew every year after 1992 (except for the 2008 recession), but it only surpassed a growth rate of 5% of GDP twice before the COVID-19 pandemic. Approximately two-thirds of the working population is still employed in the informal sector. However, poverty levels have decreased, and inequality has been somewhat reduced. These improvements have mostly resulted from remittance flows from Salvadorans living abroad rather than redistributive policies. Limited economic growth has created few opportunities for young people entering the job market, along with the criminal violence associated with gangs and organized crime. Most observers agree that social and economic disadvantages are the root causes of the violence problem, which is worsened by the large number of children and young people left to fend for themselves when their caregivers emigrate in search of better opportunities abroad. Although remittances sent back by emigrants offer economic support for some of those left behind, they cannot replace parental figures.

Within this environment, 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 – Nayib Bukele – in the 2019 presidential election. Bukele used extensive social media to broadcast his simple campaign messages: If corruption and violence were ended, there would be sufficient resources and opportunities to resolve all the country’s problems. The image he projected was that of a “non-party” candidate who rejected all those who came before and promised to apply new technologies and honest administration in government to move the country ahead.

Successive governments have failed to address the persistent migratory outflows and the continued dependence on remittances as a means of maintaining modest economic growth. Reliance on both emigration and remittances is already a structurally ingrained aspect of Salvadoran reality that cannot be changed without subjecting the most vulnerable to even more serious economic duress.

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

Bukele has prioritized public security as one of his main policy objectives and has pursued two tactics to reduce homicide rates. Initially, his officials engaged in negotiations with leaders (most of whom were in prison) of the principal urban youth gangs. They offered improved jail conditions in exchange for a decrease in intra-gang violence. Although homicides did decrease to record lows, extortion, which contributes to financing gang activities, persisted.

However, the brokered arrangement faltered during the weekend of March 25 to March 27, 2022, when 88 homicides were reported. The government attributed these murders to the gangs and responded by declaring a “state of exception.” This measure suspended constitutional guarantees, including the freedom of assembly and the inviolability of correspondence and telephone communications, and extended the period of administrative detention beyond the three days prescribed by law. The police and army proceeded to arrest thousands of individuals, some of whom were on wanted lists, while others were singled out by their neighbors.

Over 60,000 individuals have been arrested and await trial under the state of exception, which extended through the end of the review period and was likely to remain in effect for some time. The president announced in late November 2022 that the government would shortly station troops around neighborhoods of the main cities to control the comings and goings of the “terrorists” – referring to gang members – until all had been put behind bars. In early December 2022, around 10,000 police officers and soldiers took over the city of Soyapango, part of San Salvador, and proceeded to detain more people. A new prison compound has been built to house the enormous increase in detainees.

While the government does not exercise complete control over the entire national territory, anecdotal evidence suggests that Salvadorans are considerably freer and more secure to move around their neighborhoods. Homicide rates have returned to

Question
Score

Monopoly on the
use of force

8



1

relatively low levels, and a considerable number of gang members are in jail or in hiding. With homicide rates at a historic low and the massive deployment of security personnel, the state's monopoly on the use of force is more evident than ever.

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) that provides sufficient proof of identity to undertake any legally binding public or private transaction. No individuals or groups question the legitimacy of the Salvadoran nation-state. However, in recent years, there has been heated debate over the legitimacy of government measures and policies, including states of emergency to confront COVID-19 and constitutional reform.

El Salvador is a nominally secular country, but its current constitution recognizes the legal standing of the Catholic Church, while other churches must apply for theirs. Most churches do not engage in electoral politics, but religious leaders do express their opinions and are listened to carefully. Additionally, El Salvador is one of the few countries in the world that bans abortions outright and attempts to legally recognize civil unions between same-sex couples have been rejected on religious grounds.

Recently, the Catholic Church became involved in the debate over immediate presidential re-election, which the constitution prohibits but the Supreme Court has allowed. In September 2022, the archbishop of San Salvador publicly announced that President Bukele is entitled to seek re-election because the people support him. Subsequently, it was revealed that the school curriculum on sex education would be aligned with more traditional religious viewpoints, and the head of the government institute responsible for teacher training was fired. Most observers see this as a quid pro quo involving the archbishop, who acted as an individual member of the clergy, as several other bishops distanced themselves from his statement.

Since the 1992 peace accords, significant portions of the state's operations have been privatized, including telecommunications, retirement funds, banks, and electric generation (except hydropower dams) and distribution. The more crucial state functions in the areas of health care, education, public safety, justice and public works, while evidently defined and constitutionally mandated, have been underfunded. Spending on education, for example, consistently falls below the level of 6% of GDP that international development agencies consider necessary.

The lack of a competent civil service, and of oversight at sufficient levels to curb corruption and inefficiency, has significant consequences. Bukele's government replaced many high- and mid-level government officials with underqualified and young individuals with no prior experience in public administration and little regard for established administrative procedures. His government also replaced about a third of all judges, considered beyond retirement age, with young individuals. It has yet to be seen whether they will be able to overcome the huge case backlog.

State identity



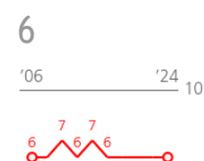
1

No interference of religious dogmas



1

Basic administration



1

COVID-19 greatly strained government operations and finances, but by 2021 – with the pandemic largely under control – the government’s priorities came back into focus. Education remained the principal operational expenditure, accounting for 17.1% of total expenditures. It was followed by health (12.5%), justice and public security (7.7%), and public works (4.5%). The government is committed to providing free medical services for those who are uninsured or unable to afford such care, which has contributed to the rise in life expectancy. Additionally, the government has pushed for large infrastructure projects. However, the majority of Salvadorans are more concerned about meeting their basic needs. While 100% of the population has access to electricity, 33% of electric generation still relies on hydrocarbon fuels. Moreover, 98% of Salvadorans have access to treated water, but only 37% of homes are connected to a water main. Similarly, 38% of homes are connected to a sewage main, yet only a handful of towns and cities have sewage treatment plants.

2 | Political Participation

National and municipal elections occurred as constitutionally stipulated under the responsibility of a supreme electoral tribunal. Since the 1992 peace accords, all political parties have been able to field candidates freely and have their votes counted accurately. There have been very few claims of manipulation of election results or obstacles to campaigning and voting. However, only 52% of eligible voters voted during the 2019 presidential election, meaning that Bukele, who won 53.1% of the votes, was elected with a little over a quarter of the voting-age population. For the 2021 legislative and municipal elections, only 50.2% of eligible voters voted.

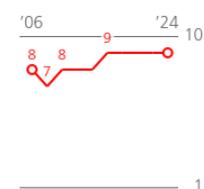
A long-standing characteristic of electoral campaigns has been the engagement between political parties and urban gangs. Because gangs held influence over significant voter groups, the main parties, including Bukele’s New Ideas party, have sought their support in the run-up to the 2019 and 2021 elections. This involved negotiating improved conditions for incarcerated gang leaders in exchange for votes and a reduction in the number of homicides.

Media access also remains problematic for smaller parties. There is public funding for elections based on each party’s previous electoral showing, but larger parties have access to private donors, tipping the balance in their favor. Money from Salvadoran expatriates, particularly those from the United States, is also a significant source of funding. Some reports suggest that Bukele’s initial funding for his presidential campaign came from U.S.-based groups, which may explain his government’s strong interest in extending voting rights to Salvadorans living abroad.

In anticipation of the 2024 general elections, Bukele aims to allow Salvadorans living abroad to vote through internet platforms, a move that critics argue could result in fraud due to the control of the election machinery by political parties associated with Bukele. Additionally, Bukele has faced accusations of establishing media trolls to

Free and fair elections

9



1

amplify his popularity on social media. Opposition parties and international observers are increasingly concerned that the ongoing “state of exception” will continue to be in force during the upcoming presidential election, thereby imposing restrictions on electoral freedoms and guarantees.

There is minimal effective opposition to the government’s ability to govern through the use of veto powers. Following the 2021 legislative elections, which granted Bukele’s Nuevas Ideas party a supermajority of seats, the legislature’s role has been reduced to simply approving the president’s proposed laws, often without any substantial discussion occurring in either the committees or the plenum. Once in control of both the executive and legislative branches of government, Bukele replaced the judges of the Constitutional Chamber of the Supreme Court with loyalists. The business community has accepted this one-party rule, the Catholic Church lacks any veto power, and the military is bound to the government after seeing increases in its budget, troop strength and its role in maintaining public security. The issue here is the opposite; the government can essentially adopt whatever course of action it desires, and it has indeed demonstrated this ability. Additionally, changes in the social and economic makeup of the country since the civil war’s conclusion have resulted in a notable decrease in the relative influence of past powerful actors such as agricultural interests (specifically coffee and cotton growers) and banking firms (most large banks now being foreign-owned).

The constitution recognizes the rights of assembly and association. These were generally respected until the outbreak of the COVID-19 pandemic in March 2020, when measures were introduced (understandably) limiting gatherings to prevent the spread of the disease. A spike in homicides in March 2022 prompted the government to impose a much harsher state of exception aimed at combating gang violence. This measure severely restricts constitutionally recognized political and civic rights, thereby suspending a) the right of assembly, b) the right to be informed of the reasons for a person’s arrest, and c) the right to confidentiality of correspondence and telephone communications, while also d) enabling a person to be detained indefinitely beyond the 72 hours mandated by law for charges to be brought.

People who live in areas previously under gang control now face intimidation by state security forces that round up suspected gang members. According to government sources, the police and army have detained over 60,000 individuals since the implementation of the 2022 state of exception, including over 1,600 children, according to Human Rights Watch. Officials aimed to arrest another 20,000 by the end of the year, with the government stating that this would result in the incarceration of all gang members. However, human rights organizations argue that thousands of individuals not affiliated with gangs are currently in jail. The government counters that the number is significantly smaller and emphasizes that each case is reviewed on an individual basis.

Effective power to govern



1

Association / assembly rights



1

The suspension of the right to assembly also means that there are no public spaces for people to push for specific political rights, such as women’s reproductive rights or the end to discrimination for the LGBTQ+ community. The threat of arbitrary arrest has created an atmosphere of fear among advocates for change or those who protest against rights violations.

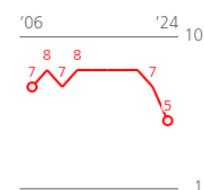
Freedom of the press was generally respected until Bukele took office in 2019. The president criticizes the press – both print and digital – for being part of “the old order of things,” especially when he and his government have been the subjects of investigative reporting, editorials or opinion columns. Bukele has been especially irritated by reports on his handling of the pandemic and allegations of corruption associated with his government appointees. In response, the government has denied the media access to public information and news conferences. Equally troubling, the more critical media, especially *El Faro*, has been subject to special audits and accused of money laundering for receiving funds from abroad.

Also unprecedented is the establishment of a government-funded daily newspaper that was launched in October 2020. Many of its journalists were recruited from established print newspapers, and its advertising is primarily funded by state institutions such as the armed forces, the port authority and ministries. The newspaper is also sold at newsstands for half the price of other publications. Its reporting and editorial content consistently portray the government in a favorable light. Moreover, one of the government-owned TV channels, which previously only aired educational programs, now features news segments that provide information favorable to the government. These efforts complement the ongoing allocation of funds by the government, as well as previous administrations, for billboards, advertisements and televised video clips.

The two main daily newspapers and several small digital papers continue to print critical news items but face severe restrictions on accessing government information. In April 2022, the legislature amended the penal code to criminalize press reporting that “reproduces or transmits” messages, communiques or graffiti associated with gangs, with potential jail terms of up to 15 years. Journalists now have to carefully consider the risks of government prosecution when reporting on gang violence and government measures to suppress it.

Freedom of expression

5



3 | Rule of Law

Since the 1992 peace accords, no single political party has held a majority in the legislature. As a result, legislative bills have required extensive debate and negotiations before being enacted into law. Generally, right-leaning parties have had little difficulty reaching agreements on significant pieces of legislation such as the privatization of public enterprises, the dollarization of the economy and the implementation of public security measures. However, when the left gained a plurality in the legislature after 2009, negotiations and consensus became even more crucial for successfully passing legislation. Consequently, government policies and operations have largely remained unchanged, with the few modifications primarily focusing on the allocation of government expenditures and the appointment of Supreme Court justices.

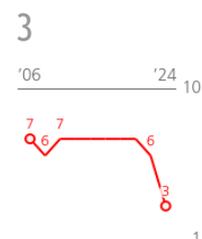
All of this changed after the mid-2021 elections, when Bukele’s party won an outright legislative majority. On the first day of the new legislature’s sessions, it fired the five magistrates of the Supreme Court’s Constitutional Chamber, as well as the attorney general. Pro-Bukele replacements brought the judicial branch under executive control to a considerable degree. Since then, the legislature has passed legislation with little or no debate, and the office of the attorney general has shelved several ongoing investigations involving current government officials. The Supreme Court also ruled that Bukele can run for re-election in 2024, although multiple articles in the constitution forbid this. The electoral tribunal said in turn that it was required to follow the Supreme Court’s ruling and put Bukele on the ballot.

This concentration of power by the president has led other government offices – accounting and oversight, human rights, access to information – to lower their profiles to the point of becoming practically inoperative. The independent press is the only functioning counterweight to the government’s operations but is severely limited by restrictions on access to public information. Not even U.S. government censure of officials close to Bukele has had a noticeable impact on the slide toward authoritarianism.

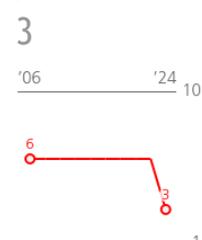
The Supreme Court’s independence has been seriously compromised over the review period, especially since mid-2021 when the legislature fired the attorney general and all Constitutional Chamber judges – even though some of their terms did not end until 2028. The judges had previously ruled against a number of the president’s COVID-19 orders, but their replacements are deemed loyal to the president.

In June 2021, the new attorney general ended cooperation with the International Commission Against Impunity in El Salvador, which had supported investigations of high-level government officials in Bukele’s administration. Several other investigations involving government corruption were also closed. In September 2021, more than 100 prosecutors were retired on the basis that they had surpassed age and

Separation of powers



Independent judiciary



working time limits. A month earlier, in August, the legislature passed a law requiring judges older than 60 years of age to retire. This affected over 200 judges out of the 700 currently serving. Previously, there was no mandatory retirement age for judges; retirement was allowed after 35 years of service. The dismissal of the judges enabled the Supreme Court, now controlled by Bukele appointees, to name their replacements without following the established vetting procedures. This has raised questions about their independence when presiding over cases involving government officials or policies.

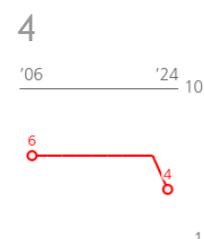
The judiciary system as a whole has come under great pressure to conform to the government's policies and wishes. For example, the tens of thousands of people detained under the "state of exception" are being processed very slowly, in part because judges are not willing to demand concrete evidence that arrests are warranted (i.e., the writ of habeas corpus). The judiciary's operation is also hampered by limited funding. In 2021, the judiciary was allocated 6.1% of the national budget, while the office of the attorney general received 2%.

President Bukele campaigned on a platform to combat corruption, pledging to establish an anti-corruption commission modeled after Guatemala's. Subsequently, the commission (CICIES) was formed with the support of the Organization of American States (OAS), but its activities remained relatively low-profile due in part to its primary role suggesting corruption probes to the attorney general's office. In June 2021, CICIES was disbanded upon President Bukele's order, following the appointment of a new attorney general who opted not to move forward with the ongoing cases identified by the commission.

Only the mayor of the second-largest city in the country is being prosecuted for corruption, although the independent media has revealed numerous cases of malfeasance and cronyism in public contracts. The agriculture minister resigned after ordering government contracts intended for the purchase of food for poor families affected by the COVID-19 lockdown to be kept secret. His name, along with four other high government officials, was included on the so-called Engel list of corrupt individuals issued by the U.S. State Department in June 2021. The list also included Bukele's chief of staff, his legal counsel, the head of the prison system and the labor minister. They all remain in their positions. A second list, published in July 2022, included the leader of the president's party in the legislature, the president's press secretary and his legal adviser. Those named in the lists had their U.S. visas canceled and are subject to possible further legal action under U.S. law. Two of the individuals were also included in the latest sanctions issued in December 2022 by the Office of Foreign Assets Control (OFAC) of the U.S. Department of the Treasury under the Magnitsky Act.

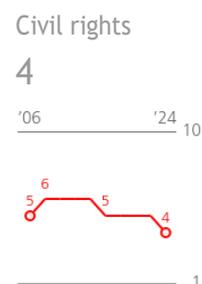
Government corruption is facilitated by the officially sanctioned secrecy of information regarding government contracts and expenditures, as well as the suspension of normal bidding processes under the states of emergency and exception,

Prosecution of
office abuse



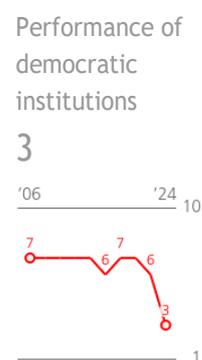
respectively, imposed to counter COVID-19 and gang violence. In some cases, government information is to remain privileged for up to seven years. In January 2023, the legislature approved a new law for government purchases that allows the executive to declare bidding and costs to be confidential if the project is deemed of “strategic importance.”

Respect for civil rights in El Salvador is one of the most important legacies of the 1992 Peace Accord. The creation of the Office of the Human Rights Ombudsman underscored a commitment to civil rights. However, discrimination against LGBTQ+ people remains common, and women’s reproductive rights are severely impacted by a total ban on abortions. Additionally, violations of COVID-19 restrictions on movement were severely punished with arbitrary detentions and confinements, which were ruled unconstitutional by the Supreme Court but were not rescinded. The most egregious attacks on civil rights, however, have occurred since March 2022, when the government decreed a “state of exception” that suspends basic civil rights. The state of exception, which has been repeatedly prolonged, permits arbitrary and indefinite detentions, suspends the privacy of communications and prohibits public meetings. The government claims that the state of exception is indispensable as a means of controlling and eliminating gang violence and extortion. So far, approximately 60,000 people have been detained, bringing the country’s prison population to around 95,000 as of November 2022, making El Salvador the country with the highest incarceration rate worldwide. Reports by human rights organizations have documented cases of torture and deaths (both violent and due to illness) while in detention, in addition to extreme prison overcrowding – the infrastructure’s notional limit is 27,000 inmates. The government is rushing to finish a massive detention center to hold up to 40,000 prisoners.



4 | Stability of Democratic Institutions

President Bukele’s election has significantly strained the political system. When the legislature (which was under the control of opposition parties until mid-2021) refused to approve the funds requested by Bukele for public security, he personally led a brief takeover of the Legislative Assembly with military support to demand a vote on the pending bill. Although the legislature did not acquiesce, it subsequently approved loans totaling \$3 billion for government spending in response to COVID-19.



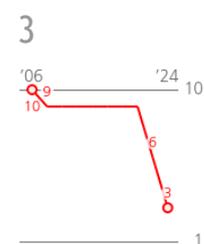
Still, confrontations with the legislature continued over other issues until Bukele’s party won an outright legislative majority in February 2021. Only 20 of the 84 legislators can today be considered in opposition. Subsequently, bills sponsored by Bukele have passed with little to no debate and without concessions to other parties (some of which vote with the government in exchange for government posts anyway). After gaining control of the legislature, Bukele dismissed all judges of the Supreme Court’s Constitutional Chamber and appointed a new attorney general loyal to him, thereby effectively bringing the judicial system under his control.

Solidifying this one-party rule, the February 2021 elections also granted Bukele's party control of 152 out of the 262 municipal governments in the country. Prior to this, legislation stipulated that 10% of the national budget be directly allocated to the municipalities for public works and general administration. However, Bukele's party restructured this arrangement in November 2021 by establishing the Department of Municipal Works, which is to determine the allocation of funds. The rationale behind this move was that municipalities were utilizing the assigned funds inefficiently or not at all. Nevertheless, the new setup empowers the government to receive recognition for its investments at the municipal level and to give preferential treatment to politically significant and electorally important municipalities.

Since Bukele came to power, the most serious threat to democratic processes and institutions has been the concentration of power in the executive. The legislature is controlled by Bukele's party; the Supreme Court is stacked with his allies; the municipal councils are dependent on the national government for any required improvements, whether administrative or infrastructure-related; and the military's yearly budget, troop numbers and participation in police operations (normally allowed only under exceptional circumstances) have increased. These changes in the distribution of power have generally been constitutionally sanctioned, making it difficult for democratic political actors to criticize the government for acting illegally. For example, the COVID-19 pandemic resulted in the government taking "emergency" powers that undercut civil rights, and in March 2022, the legislature granted the executive "exceptional" powers to combat gang violence, including arbitrary arrests and unlimited detention time. Bukele has announced his intention to run for re-election in 2024 and has secured the approval of the Supreme Court despite the constitution's ban on immediate re-election.

Bukele's position vis-à-vis the political opposition has been further strengthened by the very high levels of public approval for his government, which have rarely dropped below 80%, according to opinion polls. Thus, there are few political actors who are able to question the legitimacy of the institutions that his government has come to control. Bukele's policies have not negatively affected the private sector, which continues to benefit from government contracts and welcomes the increased security provided by the mass arrests of gang members. The Catholic archbishop of San Salvador publicly supports Bukele's re-election bid and draconian measures against gangs. Only a few civil and human rights NGOs and senior political figures of largely discredited political parties continue to denounce the government's slide toward authoritarianism. The U.S. government is perhaps the most important critic of Bukele's government and defender of democratic institutions in El Salvador.

Commitment to democratic institutions



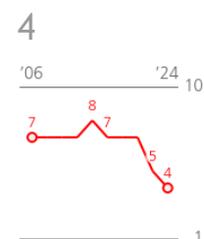
5 | Political and Social Integration

Up until 2019, the Alianza Republicana Nacionalista (ARENA) and the Frente Farabundo Martí para la Liberación Nacional (FMLN) parties governed the executive branch, but neither ever had majority control of the legislature, a fact that required negotiations and compromises. Over time, both parties shifted toward a centrist position, with limited and gradualist policy proposals, gradually diffusing the left-right divide. This political coexistence was significantly weakened by extensive corruption scandals within the executive branch, under the leadership of both parties. By 2019, the traditional parties had lost considerable credibility and were rejected by the electorate. As a result, Nayib Bukele and his newly formed party, New Ideas (NI), won the presidency outright in 2019 and achieved a legislative majority with 56 out of 84 seats in 2021. This left ARENA with 14 legislators (down from 35) and the FMLN with four legislators (down from 18). Although both parties experienced significant losses in their traditional voter base, either due to party switching or abstention, Bukele's rise and the success of NI came primarily at the expense of the FMLN. Bukele originally began his political career within the FMLN but was expelled for refusing to support the party's chosen presidential candidate for 2019. Bukele's election clearly signaled a rejection of the FMLN's performance in government, and he also accused ARENA of being complicit in corruption, promising a new style of governance.

Since Bukele took office, one of the more notable changes has been a significant turnover of government personnel. One of his initial actions was to dismiss hundreds of government employees who were relatives of the former president or other FMLN leaders. Following this, a number of crucial government positions were filled by individuals with limited or no experience in the public sector but who were instead schoolmates or friends of the current president. In the absence of a structured and historically established political party, Bukele has heavily relied on clientelism to construct, sustain and expand political backing for his administration. Moreover, the use of states of emergency and exception has enabled the government to distribute contracts for goods and services without following the typical bidding procedures or disclosing expenditure amounts. Bukele has also maintained a heightened level of political confrontation through social media, directed toward individuals and political parties associated with the recent past.

All of this has contributed to high levels of support for Bukele and his government. However, it is unclear whether popular approval will translate into future voter preference for NI and its candidates. As of yet, Bukele has been the face of NI, and he shows no signs of allowing other voices to speak on its behalf except to offer praise and support for his decisions. His confrontational style also bolsters his public image, as it simplifies political competition to a choice between him and all others.

Party system



A number of interest groups remain active, particularly those concerned with the defense of democracy, human rights and corruption in government. Although they generally agree in their assessments, their influence is restricted, and they often face criticism from government officials who emphasize their connections to international organizations and foreign funding. At one point, the government contemplated imposing a special tax on the funds they received from overseas but relented after donor governments and organizations voiced strong objections.

Labor unions have declined significantly in importance, with the exception of those representing government workers in health and education. Approximately 70% of the working population is employed in the informal sector and lacks any organized form of representation. Industrial activity is predominantly concentrated in offshore production sectors (“maquila”), where workers are not unionized. Rural labor unions are similarly feeble, mirroring the decline of agriculture and the comparatively larger urban population.

The private sector’s interests continue to be well represented. There is one umbrella private sector organization, the Asociación Nacional de la Empresa Privada (ANEP), made up of sectoral associations of bankers, merchants, industrialists and civil engineers. There are also professional associations of lawyers, engineers, economists, accountants and architects. Some disagreements have arisen among private sector groups regarding the government’s disregard for constitutionally mandated institutions and procedures. In general, criticism of the government by private sector interest groups is noticeably more muted.

More recently, associations between migrant populations and their hometowns in El Salvador have become important given the flows of remittances and, particularly, funds sent from abroad for communal improvement projects such as parks, churches, playgrounds and streets.

Latinobarómetro’s most recent survey results for El Salvador are both predictable and puzzling as a reflection of the country’s recent political outcomes. In 2020, a year after Nayib Bukele won the presidency and put an end to the two-party political system, approval for democracy shot up to 48% from 28% in 2018. This number had been declining since 2009, when approval for democracy was at 68%. The 2020 increase likely reflects approval of the election results rather than an unequivocal endorsement of Bukele as a champion of democracy.

Furthermore, when respondents were asked whether democracy, despite its imperfections, remained the preferred system of governance, an impressive 71% concurred. Paradoxically, 63% expressed readiness to accept a non-democratic government if it promised to “resolve problems,” and 66% agreed that media control by the president would be acceptable “in case of difficulties.” This apparent contradiction underscores the tension between endorsing democracy in principle and contentment with its practical outcomes. A mere 48% of Salvadorans report being either very or somewhat satisfied with the current functioning of democracy.

Interest groups

7



Approval of democracy

n/a

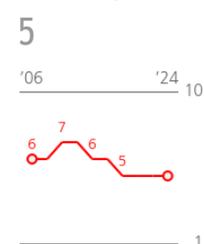


These sentiments align with public perceptions of other significant institutions in the country. The Bukele administration, despite its authoritarian inclinations, boasts the highest approval rating among all Latin American nations at 80%. The Catholic Church also enjoys considerable favorability, with 73% expressing a positive view, potentially bolstered by the recent canonization of Archbishop Oscar Romero, a highly revered figure. The army garners a 65% approval rating, while the police command 57% support. In stark contrast, the remaining key governmental bodies receive significantly lower approval ratings: the electoral authority (27%), the judiciary (30%), the legislature (12%), and the political parties (10%). Collectively, the Latinobarómetro survey data underscores a clear preference for a form of governance that centralizes power in a single entity or individual, primarily the presidency, and gives the impression of efficient decision-making with minimal debate or delay.

After the civil war, numerous voluntary organizations emerged primarily as part of the reconstruction efforts funded by international donors. Various towns and cities that had experienced significant migratory outflows established associations to funnel funds from abroad that were designated for local enhancements in the areas of education, infrastructure and culture. Subsequently, the number of voluntary organizations started to decrease as the government resumed its responsibility of providing social services and public security. Additionally, political parties increasingly addressed public concerns and demands, while international donors shifted their focus elsewhere.

Currently, most voluntary organizations are charitable in nature, often associated with a church, or focus on a limited number of specific social issues. These issues include human and civil rights, gender equality, freedom of the press and water resources. However, organizations that are critical of the government have faced accusations from officials of being tools of foreign interests. Additionally, the establishment of voluntary and autonomous organizations is likely influenced by low levels of trust among the population. A study conducted by the 2018 Latinobarómetro revealed that only 13% of Salvadorans believed that others could be trusted. The 2021 edition of the study produced the same result when participants were asked if a majority of other people could be trusted.

Social capital



II. Economic Transformation

6 | Level of Socioeconomic Development

Despite low levels of economic growth during the last decade, El Salvador had achieved significant declines in poverty and inequality rates by the start of the COVID-19 pandemic, according to the World Bank. In comparison to 2012, the moderate poverty rate had declined by nearly 17 percentage points to 22.3% by 2019, and the size of the middle class had increased over 10 percentage points to 29.7%, though the size of the vulnerable population had declined only very slightly from 43.6% to 41.05%. However, the pandemic negatively affected socioeconomic trends, especially for those at lower income levels. The share of those living in extreme poverty (earning less than \$2.15 per day) rose from 1.4% to 5.7% of the population between 2019 and 2020, before declining again to 3.6% in 2021 as economic activity somewhat recovered. The vulnerable segment of the population shrank from 41.05% in 2019 to 38.0% in 2020 but increased in 2021 to pre-pandemic levels of 41.02%. Middle-class earners were only marginally affected by COVID-19, with their share in the population dropping by only 0.7% to 29.0% in 2020 and increasing to 33.4% in 2021. Overall, poverty remained concentrated in rural areas, while urban populations were generally better off due to higher-paying jobs. Nonetheless, about 70% of the workforce works in the informal economy and is thus not covered by social security and does not pay into pension funds.

The country's Human Development Index (HDI) 2021 score was 0.675, compared to 0.672 in 2020, placing it in the medium human development category with a rank of 125th worldwide, between Morocco and Nicaragua. El Salvador's HDI position is determined to a considerable degree by the inflow of remittances from around 1.5 to 2 million Salvadorans abroad. Remittances represent just under one-fourth of GNP, according to the World Bank, and are received mostly by people who are at the lower end of the income scale, thus significantly contributing to poverty reduction. However, social and economic inequalities are among the most salient features of El Salvador. According to the HDI, the poorest 40% of the population receive 17.1% of GNI, while the richest 10% receive 29.8% of GNI. The score on the Gender Inequality Index rose slightly from 0.365 in 2020 to 0.376 in 2021, with men having significantly better average outcomes than women in employment, education and political participation.

Question
Score

Socioeconomic
barriers

4

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Economic indicators		2019	2020	2021	2022
GDP	\$ M	26881.1	24930.1	29451.2	32488.7
GDP growth	%	2.5	-7.9	11.2	2.6
Inflation (CPI)	%	0.1	-0.4	3.5	7.2
Unemployment	%	4.2	5.0	4.4	3.8
Foreign direct investment	% of GDP	2.6	1.6	2.8	0.0
Export growth	%	8.5	-24.6	29.4	10.2
Import growth	%	4.2	-14.8	28.8	1.2
Current account balance	\$ M	-113.4	403.1	-1272.0	-2146.2
Public debt	% of GDP	71.3	88.1	80.4	75.1
External debt	\$ M	17379.4	18333.7	20171.4	-
Total debt service	\$ M	5632.5	5166.3	5903.7	-
Net lending/borrowing	% of GDP	-0.9	-10.1	-2.9	-
Tax revenue	% of GDP	18.1	18.4	19.4	-
Government consumption	% of GDP	16.0	19.7	19.4	18.0
Public education spending	% of GDP	3.4	3.7	3.5	4.5
Public health spending	% of GDP	4.7	5.8	-	-
R&D expenditure	% of GDP	0.2	0.2	-	-
Military expenditure	% of GDP	1.2	1.4	1.2	1.3

Sources (as of December 2023): 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 Salvadoran economy operates under free market principles and norms, with prices set by market forces. Since April 2022, the government has subsidized gasoline and diesel fuel purchases in order to counter the rise of petroleum prices in the international market, but these subsidies were slated for discontinuation in 2023. Otherwise, all companies are subject to the same fiscal, administrative and environmental requirements, whether they are national or foreign-owned. The government actively promotes foreign investment and has enabled the online registration of new companies within three days.

Market organization

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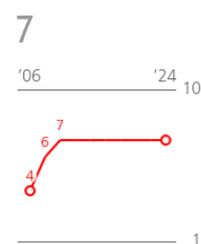
The economy was dollarized in 2000, eliminating any possibility of currency exchange controls and restrictions on capital flows or repatriation of earnings. Bukele's government introduced Bitcoin as a legal currency in September 2021, reasoning that it would increase accessibility to financial services and lower the cost of transferring remittances from abroad. In practice, this means that all businesses must accept payments in this cryptocurrency. A company owned by the government's electric power corporation bought thousands of Bitcoins and set up hundreds of ATMs, handing out the equivalent of \$30 in Bitcoin to each person who opened a Bitcoin account. Many opened accounts to spend the money but made little use of the cryptocurrency thereafter. After the initial hype, the government ceased promoting cryptocurrency, even before the collapse of the crypto exchanges in late 2022, but it has not released any information on the amount of taxpayer money used to purchase Bitcoins or set up the ATMs.

The Heritage Foundation's 2022 Index of Economic Freedom rates El Salvador at 90th place in the world, the same as two years ago, but has moved it from the category of "moderately free" to "mostly unfree," together with Honduras and Nicaragua. This is due to Bukele's increasingly authoritarian government and unchecked corruption among officeholders. Overall, the Heritage Foundation and other sources blame El Salvador's very modest economic growth on a weak productive base and an uncompetitive wage structure. Around two-thirds of the workforce works in the informal sector, and remittances have become a structural component of the economic system, prioritizing consumption of imported goods over productive investment within the country.

El Salvador has implemented very liberal trade practices since the 1990s, both in response to policy commitments and due to the strong influx of remittances from Salvadorans abroad. In order to counter inflationary pressures from a Salvadoran version of the Dutch disease, imports have been allowed in freely. The country joined the World Trade Organization (WTO) in 1995 and acceded to the Central American Free Trade Agreement (CAFTA) with the United States in 2006. In November 2022, the Salvadoran government additionally signed a free trade agreement with China, which is the second-most-important source of Salvadoran imports after the United States.

According to the WTO, the country's simple average applied most-favored nation (MFN) tariff rate in 2021 was 6.0%. The majority of tariffs are below 15%. However, tariffs on new and used clothing are set at 14.9% in order to protect the country's textile industry. Agricultural imports are typically subject to a simple average MFN tariff of 11.8%, but sugar is subject to a tariff of 26.1% and dairy products face a rate of 27.2%. Long-standing free trade agreements among the Central American countries exempt most agricultural imports from duties altogether within these trading groups. Under the Central American Free Trade Agreement (CAFTA), these tariffs are expected to be gradually eliminated by 2024. In addition to customs duties, all imported goods (excluding foodstuffs) and services are subject to a 13% value-added tax (VAT) upon purchase.

Competition policy



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Over the past decade, the biggest banks in the country have been gradually bought up by transnational banking corporations. The sale of these banks to foreign interests can be partially attributed to the adoption of the U.S. dollar as legal tender in 2000. This decision effectively eliminated the country's domestic currency and monetary policy capabilities, leaving the central bank without the ability to provide liquidity as needed. To ensure bank solvency, the foreign parent companies of these local banks assume a level of responsibility. As of October 2022, the four largest banks are owned by corporations registered in Colombia, Panama and Honduras. Together, these banks hold 72% of the total deposits in the banking system. The remaining deposits are divided among eight other banks, including a government-owned mortgage bank.

As a dollarized economy, El Salvador has no currency or exchange controls. However, every bank is required to publish its yearly audited financial statements and to report large or suspicious bank transfers to the Office of the Superintendent of the Financial System (SSF) and law enforcement officials. The SSF provides oversight of the country's banking system, and this oversight is supplemented by regular reporting from the Salvadoran Banking Association (ABANSA), a group that represents private banks.

The banking system was not significantly affected by the economic downturn due to COVID-19 lockdown measures. In October 2022, the bank capital-to-assets ratio was 14.75%, compared to 14.94% for the same month in 2021. Additionally, non-performing loans accounted for 2.0% and 2.1% of total loans in the same time periods. The distribution of outstanding loans as of October 2022 reflects the credit

Liberalization of foreign trade

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Banking system

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priorities of Salvadorian economic agents. Out of a total of \$15.4 billion in outstanding loans, 32.9% had been used to finance consumption, 17.2% for housing purchases, 14.2% for commercial operations, 10.2% for manufacturing, 8.1% for service-related activities, 5.7% for construction, and 4.0% for electricity and utilities. Notably, less than 3.0% was allocated toward agricultural activities.

Banks also play a crucial role in transferring remittances. In 2022, according to the central bank, banks handled 34.7% (\$7.74 billion) of the remittances, with money transfer companies accounting for 61.7% and cash transfers handled by couriers accounting for 1.7%. The government's Bitcoin company only handled 1.6%. A considerable fraction is also transmitted privately and informally.

There is a functioning stock exchange that primarily trades in government and private bonds. In 2021, securities worth a total of \$3.7 billion were traded, with average daily volumes ranging from \$12 million to \$30 million. The largest buyers on the Salvadoran securities exchange are government-regulated private pension funds, Salvadoran insurance companies and local banks.

8 | Monetary and fiscal stability

The U.S. dollar has been the legal tender in El Salvador since 2000. The local currency, the colón, is still considered legal tender, but all colón notes have been taken out of circulation and stored in the central bank. This ensures monetary stability; any inflationary tendencies would be mainly influenced by inflation in the U.S. economy and fluctuations in the exchange rate of the U.S. dollar against other currencies.

Between 2010 and 2019, the consumer price index (CPI) saw very modest increases. In November 2019 and 2020, the CPI stood at index values of 110.96 (2010 = 100) and 110.76, respectively. However, by January 2022, it had risen to 119.79, and by November 2022, it had reached 127.63. These numbers reflect global inflation trends and, in the case of El Salvador, the strong financial and commercial ties with the United States.

The International Monetary Fund (IMF) forecasts an inflation rate of 7.3% for 2023. The central bank's role is not significant, aside from generating reports on trade, remittances and fiscal policy. In October 2022, the central bank also took over the task of conducting the census and producing national statistics, jobs that were previously handled by the Ministry of Economy.

Monetary stability



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The constitution enshrines the right to property as a fundamental individual right under the proviso (inherited from past constitutions and difficult to identify or enforce) that it must contribute to social well-being. A constitutional provision limits private landed property to areas of 245 hectares – a holdover from the land reform program of the 1980s, enacted as a counterinsurgency measure. There have been calls to eliminate this stipulation because it discourages large agribusiness investments.

Generally, the right to private property is not questioned or debated, and procedures for its registration, transfer and sale have been improved by digital information technologies at the government’s property registry office. Still, the International Property Rights Index (IPRI) for 2022 ranked El Salvador at 97th place worldwide (between Uganda and Burkina Faso) and 13th out of 21 countries in the Latin American region. El Salvador’s IPRI ranking is negatively affected by its weak enforcement of intellectual property rights, especially software, and by legal as well as political uncertainty.

Water and mining rights are contentious political issues. Metal mining was prohibited in 2017, and in December 2021, after more than a decade of unsuccessful attempts, the legislature passed a law regulating the use and utilization of water resources. This law establishes a national water authority, appointed by the president, that will grant permits for the exploitation of water resources for a maximum of 15 years for major water users (over 365 thousand cubic meters per year). Critics argue that this is tantamount to de facto water privatization.

9 | Private Property

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Fiscal stability

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Property rights

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The Salvadoran economy operates under private enterprise rules. Since the 1990s, the state has mostly retreated from the operation of economic enterprises – for example, its telephone company and banks were privatized, as were electrical distribution facilities. The government-run social security institution turned over management of retirement funds to private concerns in 1998. Currently, the government’s direct involvement in economic activities is limited to the operation of the country’s seaports, its only international airport, as well as the national hydroelectric power and water authorities, which are run as autonomous public corporations.

Under the business-friendly governments of the ARENA party (1989 – 2009), private enterprise was well represented and supported. The property tax was abolished, import and export duties were mostly reduced or eliminated, and government income began to rely mainly on the value-added tax. Additionally, the U.S. dollar was adopted as legal tender, and free trade treaties were negotiated with the United States, the European Union, Mexico and other Latin American countries. The governments of the leftist FMLN party (2009 – 2019) did not significantly alter this situation. However, Bukele’s government has taken steps to attract new foreign investment. These measures include a crackdown on social violence and insecurity, starting with the declared state of exception in March 2022, with one goal being the creation of a stable environment for foreign investment. The state has also encouraged public-private partnerships (PPP). The first such partnership being implemented involves a private company managing the state-owned airport customs house, with the aim of expediting the processing of international cargo. Other possible areas of PPP collaboration include seaports and sustainable energy generation. While the country’s service sector enjoys a competitive advantage, there is a need to cultivate and enhance social capital in order to fully capitalize on international production chains.

10 | Welfare Regime

Social safety nets exist, but they do not cover all risks for the entire population. Public-administered medical insurance is mandatory for all formally employed individuals, including foreign residents. The program, Instituto Salvadoreño del Seguro Social, is funded by employees, employers and the state. As of September 2022, 31.6% of the total population had coverage under the public medical insurance program, including 32.5% of the economically active population and a total of 1,043,836 additional beneficiaries (spouses, children, parents, retirees). Self-employed and informal sector workers, who are not covered, depend on private medical facilities or the government’s nominally free public health clinics and hospitals. While these facilities are generally adequate for outpatient situations, non-emergency procedures often involve considerable wait times.

Private enterprise



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Social safety nets



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In 2022, the government allocated approximately \$1.1 billion for health services, which was equivalent to 3.5% of the country's GDP and made up 14% of the state's total budget expenditures for the year. However, due to insufficient funds, investments in certain critical public health facilities are currently on hold. According to the most recent survey data available, dating from 2019, Salvadorans spend 4.7% of their remittances on medical expenses, 4.5% on education and 82.5% on living expenses. Overall, the quality of health services has gradually improved, leading to an increase in the average life expectancy to 71 years.

Old-age pensions have been administered by private pension funds since 1998. As of October 2022, there were two private retirement funds in the country, with 833,181 individuals paying into them out of a total of 3,674,873 who were affiliated, or 22.7% of the total. Most of those paying into the funds are urban workers in the formal sector. A law passed in December 2022 raised the minimum monthly pension from \$300 to \$400 to counter inflation. Simultaneously, it allowed the government to borrow from private pension funds at low interest rates to finance its fiscal deficits and loan obligations. The law has been criticized for not addressing the issues of coverage and the long-term financing of old-age pensions.

The government took steps to counter the initial impact of COVID-19 on households and businesses, including a one-time \$300 cash transfer to all families and the distribution of food donations. Although the COVID-19 vaccination campaign concluded in 2022, vaccinations are still freely available upon request at government clinics.

Successive Salvadoran governments have expressed their commitment to expanding opportunities for young people, primarily through support for public education and job training. As evidence of this effort, the literacy rate has steadily increased, reaching 90% of the population over 15 years of age in 2020 (91.7% for men and 88.5% for women). However, other indicators of educational achievement are less promising. According to enrollment statistics for 2022, the highest proportion for any age group is 90.2% of eight-year-olds currently attending school, whereas only 68.8% of 16-year-olds are in school. Girls fare slightly better in both age groups, with enrollment percentages of 91.3% and 70%, respectively, compared to boys at 89.2% and 66.8%. At the university level, only 11.88% of 18- to 24-year-olds as of 2020 were enrolled in a degree program, including two-year technical-level instruction. Additionally, 55% of those enrolled were women, with a 10% higher enrollment rate than men.

Enrollment rates indicate that socioeconomic status still plays an important role in opening opportunities for personal improvement. Many young people begin working early on to pay for their education, thus extending their total years of study. The country has only one public university, which is relatively inexpensive, but it enrolled only 63,175 students in 2020 – about a third of the total university population – compared to 127,639 in private institutions of higher learning, which are usually much more expensive. Rural populations are particularly disadvantaged in this regard.

Equal opportunity

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After completing their studies, young people – even those with a university degree – have a hard time finding jobs in a largely service-oriented economy with sluggish growth. In 2021, women made up 42.1% of the labor force, compared to 41.9% in 2020. Still, youth unemployment rates are high, and many Salvadorans emigrate to seek better opportunities.

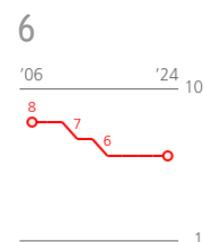
Two pieces of legislation were enacted in 2011 to address violence against women and promote gender equality in education and the workplace. However, the Global Gender Gap Report for 2022 ranks El Salvador at position 80 out of 153 countries, with a score of 0.706 (1.0 represents total parity) when measuring gender disparities. According to the report, women and men are nearly equal in terms of educational attainment, health and survival. However, women are significantly disadvantaged with regard to political empowerment (0.262) and economic participation and opportunities (0.590). Women’s reproductive rights are generally respected in terms of access to contraception, although abortion laws in the country are among the strictest in the world.

Informal discriminatory practices affect the LGBT community, exposing its members to harassment and physical violence. Same-sex marriage and civil partnerships continue to face strong societal rejection. However, religious, ethnic and racial barriers to social or personal advancement are generally weak or nonexistent.

11 | Economic Performance

The Salvadoran economy has undergone a radical transformation over the past 50 years. The country has shifted from being a traditional exporter of agricultural products such as coffee, cotton and sugar and possessing an emerging light industrial sector to becoming a net exporter of population and offshore production goods. Additionally, it now boasts a sizable service sector that caters to the growing demands of a burgeoning middle class. The country has adopted the U.S. dollar as its legal tender and receives significant inflows of family remittances. Furthermore, it has implemented trade and investment policies that promote liberalization and has even dabbled in the use of Bitcoin as a legal currency since mid-2021. However, despite implementing all the recommended measures, El Salvador still has the lowest rates of growth and investment among all Central American nations. From 2010 to 2020, the economy experienced growth of over 3% in only two years, with most years seeing rates around 2% to 2.5%. The COVID-19 pandemic and subsequent lockdown measures resulted in a per capita GDP contraction of -8.4% in 2020, followed by a rebound of 9.9% in 2021. According to estimates from the World Bank, growth is projected to be 2.4% in 2022 and 2.0% in 2023, positioning El Salvador at the lower end of the middle-income country category.

Output strength



In the five years leading up to the COVID-19 pandemic, the inflation rate fluctuated around 1.5% annually but dropped to -0.5% in 2020 and rose to 6.1% in 2021. By November 2022, it had reached an annualized rate of 7.32%. As a dollarized economy, the country had an inflation rate that was in line with that of the United States.

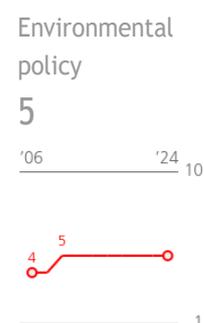
FDI inflows in 2019 amounted to \$636 million (2.6% of GDP). In 2020, this figure decreased to \$373 million (1.5% of GDP), before eventually rebounding to \$830.5 million (2.9% of GDP) in 2021. The majority of foreign investment is directed toward the textile sector, electric generation, call centers and telecommunications. However, the country has been unable to attract a greater amount of foreign investment due to its small domestic market, lack of natural resources, and elevated levels of criminality and social violence.

Slow economic growth and increased government spending have placed great strains on the government's finances. In 2019, the government's gross debt was 71.3% of GDP, but rose to 89.4% in 2020 after the legislature approved \$3 billion in loans to counter the impact of COVID-19. In 2021, debt dropped to 82.4% of GDP, and further to 80.3% in 2022. Credit rating agencies have repeatedly warned about the difficulties ahead in securing new loans. As usual, in 2021, the current account balance ran negative at -\$1.46 billion, and by the end of the third quarter of 2022, it stood at -\$2.07 billion. Remittances are key in helping to cover a good part of this negative current account balance – they have increased every year for the last decade, reaching \$7.49 billion in 2021 and a record \$7.74 billion in 2022.

Tax policies have not been reformed since the 1990s. In the case of the 2022 budget, the main source of government revenue is the value-added tax (38% of total revenue), followed by income tax (31.7%) and borrowing (15.2%). The government abolished the property tax completely in the late 1980s, and no significant effort has been made to reintroduce it.

12 | Sustainability

With roughly two-thirds of the population now living in urban environments, concerns about the environment have shifted to focus on energy and water access. Although the government presented a national environment policy in 2022, climate change is still not an issue attracting wide attention, although it is frequently a subject of reporting in the principal media. The proposed environment policy mainly consists of platitudes, with few concrete proposals and no monetary allocations for projects. The Ministry of the Environment received one of the smallest budget allocations of any ministry: \$13.1 million (0.1% of total budget expenditures in 2022).



Much of the country already experiences moderate-to-severe water scarcity. Water table levels have persistently fallen due to excessive pumping and a lack of forest cover. Recent studies suggest that 90% of surface waters cannot be treated due to high contamination levels. A water law passed in 2022 seeks to regulate water use by households, industry and agribusiness.

Reliance on fossil fuels for the purposes of generating electric power has decreased in recent years. In 2022, hydropower accounted for 33.7% of electricity generation, while fossil fuels accounted for 24.0%. The country also derives electricity from geothermal (23.0%) and solar sources (8.5%), although wind power production remains insignificant.

Education policy has long focused on achieving maximum enrollment at the primary and middle school levels (grades 1 to 11). However, this pursuit has come at a cost: the school day for students at public schools is only four to five hours long due to the two-shift system (morning and afternoon) implemented to reduce expenses. In 2021, the average number of years attended in the education system was only 7.2. Consequently, El Salvador's score on the U.N. Education Index in 2021 was just 0.590, though this was a rise from 0.557 in 2011 and 0.573 in 2016.

Government education spending in 2022 was the largest budget item, with expenditure of \$1.47 billion (18.5% of the year's total) or 5% of GDP – the highest GDP proportion ever achieved. Part of the increase reflects the impact of price inflation, but other budget lines were also strengthened, such as purchases of computers for online instruction and improvements in school infrastructure. Elementary and middle school public education absorbed about 89.5% of the education budget for 2021, while the only public university received 10.5%.

Institutions of higher learning, both public and private, primarily focus on teaching in the fields of law, business administration and the social sciences. Only a few universities are dedicated to conducting serious research, particularly in medicine and the social sciences. There is little fundamental scientific research performed. The overall investment in research and development (R&D) by universities, businesses and the government is negligible. According to UNESCO, the gross expenditure on research and development in 2020 amounted to approximately 0.2% of GDP. The country has suffered from significant brain drain, particularly in the fields of medicine and engineering, resulting in the loss of important human capital.

Education policy /
R&D

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Governance

I. Level of Difficulty

Emigration and remittances, arguably the most important structural changes of the last century, have enabled numerous families to escape poverty. However, the downside of this substantial emigration is the fragmentation of families, resulting in many single-parent households (primarily led by women). Children who reside with extended relatives – or who are predominantly independent – are particularly susceptible to becoming involved in gang-related violence and criminal activities. Since at least 2000, gang-related violence has been a prominent public concern, yet previous government and private sector efforts to address this issue have proven ineffective until the current administration adopted the widely endorsed approach of mass incarceration.

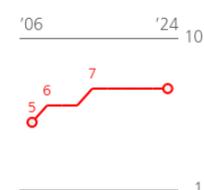
The education system is chronically underfunded and unable – or unwilling – to provide the skills and knowledge required by technologically complex productive chains. Most employment opportunities in the formal sector are for low-skilled workers in the services and offshore production sectors (maquila), while emigration flows continue unabated.

Approximately two-thirds of the country’s population live in urban areas, and the country boasts a generally robust infrastructure. The paved highway network extends to most regions across the nation. The sole airport serves as a modern hub for both regional and international air travel. However, the functioning seaport, established in 1962, is outdated, lacking specifically designed facilities for container traffic. Additionally, an expensive container port located in the eastern part of the country has remained inactive for over a decade due to technical and concession challenges.

Natural disasters are an ever-present threat. Earthquakes – and associated landslides – are especially destructive, although building codes have become stricter and high-rise steel-based construction is more common. COVID-19 increased awareness about the importance of public health and prompted demands for more and better health facilities.

Structural constraints

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After a period of relatively high levels of activism in the 1990s, civil society became more focused on several issues government agencies were ignoring, including environmental defense, gender and reproductive rights, and collaborative development projects between towns and villages and expat Salvadoran communities. After 2010, when large-scale corruption in government circles was revealed by independent journalists, a number of civil society organizations (CSOs) began monitoring government spending and contracts with private businesses.

The constitution protects the existence of CSOs under the right of association, as does a 1996 law that specifically addresses the operation of not-for-profit associations and foundations. However, since President Bukele assumed office in mid-2019, their work has not become any easier. He has launched attacks on several CSOs that have criticized his government and received foreign funds to finance their operations. One notable example is the audit conducted by his government on the main digital newspaper, a not-for-profit organization specializing in investigative reporting. Additionally, the government employed sophisticated digital technology to tap the telephones of the newspaper's staff.

The government refuses to provide information on public contracts and ignores normal bidding procedures under the states of emergency and exception that were imposed as a means of addressing the effects of COVID-19 and gang violence. Since Bukele's party controls the legislature, the courts and the office of the attorney general, CSOs have little recourse remaining to seek judicial protection and redress.

Constraints on civic engagement are compounded by high levels of social violence and low levels of interpersonal trust. According to the 2021 Latinobarómetro survey, only 13% of Salvadorans believe that a majority of other people can be trusted. Nonetheless, community organizations persist in their functioning, particularly those that direct remittances toward social improvement projects, which typically steer clear of political or ideological agendas.

From the end of the civil war until recently, political disagreements were settled through the ballot box and via negotiations. Simultaneously, social violence intensified, with peaks in homicide rates among the highest levels globally, reaching 103 murders per 100,000 inhabitants in 2015. By 2019, when Bukele assumed office, homicides had dropped to 36 per 100,000 inhabitants, and even further to 18 per 100,000 inhabitants in 2021. The reduction was due to a truce that critics argue Bukele brokered among gangs (similar to that of 2012 – 2013) to reduce violence in exchange for improved prison conditions for gang leaders. The truce was broken in March 2022, during a weekend spate of murders that prompted the government to declare a “state of exception” that resulted in mass detentions and incarceration over the following months. According to government figures, the homicide rate dropped to a record low of 7.8 per 100,000 inhabitants.

Civil society traditions

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Conflict intensity

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Political confrontation noticeably increased during Bukele's initial years in office, while the opposition parties still maintained control of the legislature. However, in early 2021, his political party secured a legislative majority, allowing them to govern without the necessity of negotiations. Furthermore, his party achieved full control of 116 municipal governments out of 262, including all major cities, and formed alliances with other minor parties, securing an additional 36. While political opposition remains, its impact is largely inconsequential due to the president's extensive influence and overwhelming public approval ratings.

Attempts by opposition groups to mobilize and demonstrate against government measures have been few. Under the state of exception decreed in 2022, public gatherings have been prohibited. Bukele has also deployed large numbers of police and soldiers to crack down on gangs. This sent a clear message to the opposition and CSOs to refrain from public gatherings. In fact, public mobilization is not part of President Bukele's own playbook. He and his followers have relied mostly on social media platforms to rally support and mock the opposition. Bukele's style is clearly populist, combining personal charisma with promises of simple solutions to complex problems. In the process, the liberal democratic system set up in the 1990s has been weakened considerably as a result of its own shortcomings and Bukele's leadership.

II. Governance Performance

14 | Steering Capability

Shortly after assuming office, President Bukele had to set aside his initial campaign promises – including significant public investment in infrastructure and reform efforts to enhance government efficiency and eradicate corruption – in order to address the COVID-19 pandemic. His administration quickly developed a package of emergency hospital services and implemented economic support for families and businesses impacted by lockdown measures. Additionally, the government secured \$3 billion in loans to cover the unexpected expenses caused by the pandemic.

By mid-2021, the pandemic had peaked, and Bukele was able to focus on policy and governance issues. However, he created a highly tense political atmosphere by winning control of the legislature and subsequently removing Supreme Court justices and the attorney general, who was leading multiple corruption investigations. Even the United States condemned his actions and halted certain aid programs for the government. Moreover, a requested IMF loan fell through, leading to a fiscal crisis for the government. It was at this point that Bukele turned to Bitcoin and had the legislature declare the cryptocurrency as legal tender in El Salvador. Bukele was confident that the country would receive millions in Bitcoin and that those who

Question
Score

Prioritization

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opened Bitcoin accounts would benefit financially. He even announced the sale of Bitcoin-denominated bonds to fund his infrastructure projects. However, the decline in Bitcoin's value negatively impacted these initiatives.

By the beginning of 2022, new measures were necessary to create the perception that the government was maintaining the initiative. One of these measures was a crackdown on gang members under the state of exception, under which the government suspended habeas corpus and basic civil rights such as association and correspondence, with no apparent end in early 2023. Another measure was Bukele's announcement in September 2022 that he planned to seek re-election in 2024, aided by the Supreme Court's reinterpretation of a constitutional provision prohibiting it. Additionally, Bukele's government decided to allow Salvadoran expatriates to vote electronically in early 2024, even though there was no established system in place to handle this activity. All of these measures are directly linked to Bukele's desire to retain power.

Neither Bukele nor his closest advisers seem prepared or willing to devise policies for the long term. They are all heavily involved in achieving short-term objectives as political operatives. Additionally, the president lacks seasoned advisers who can suggest continuity with successful or important past government initiatives. As a result, important issues such as climate change, water depletion, food security, green energy and migration have been largely ignored. However, the government has prioritized the establishment of a violence-free environment with the aim of encouraging investment, albeit at considerable costs for democracy.

To the extent that there are policy objectives under Bukele's presidency, the results so far seem highly successful, if public approval ratings are any indication. The overarching concern of his government is the promotion of public safety in order to attract investment for economic growth. The decline in social violence has been notable, with homicide rates at their lowest level ever in 2022 – 7.8 per 100,000 inhabitants. However, achieving this has come at a cost: More than 60,000 suspected gang members have been arrested and jailed under the “state of exception” during 2022, based on appearances, anonymous tip-offs and mass security operations. A new jail is being built to house detainees, but no provision has been made for their eventual trial and possible release.

A second initiative to promote investment was the introduction of Bitcoin as legal tender. It was initially advertised as a means of reducing remittance charges and attracting crypto investors. The government installed hundreds of Bitcoin ATMs and issued hundreds of thousands of Bitcoin “wallets,” but the experiment seems to have failed. Less than 2% of remittances were received via Bitcoin in 2022, and the use of the wallets is very limited. The crash in the value of cryptocurrencies and the corruption scandals in crypto exchanges have further reduced public confidence in Bitcoin.

Implementation

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A third concern initially espoused by Bukele was inefficiency in government. During his electoral campaign, he discussed the use of digital technology to expedite government decision-making and produce short-term results. However, all governments in El Salvador face difficulties in implementing policies, partly due to the absence of a qualified civil service. High-level government officials transition with changes in government, which is common in Western democracies. However, in El Salvador, mid-level personnel are also shifted and removed, making transitions between administrations challenging. In Bukele's case, there has been a concerted effort to replace mid-level appointees with new individuals from the president's party, most of whom are in their 30s and 40s and are relatively inexperienced in government. This gives the impression that cabinet choices are based on personal relationships or loyalty to the president.

Finally, Bukele has reiterated the government's commitment to improving the country's transportation infrastructure, including the establishment of a high-speed rail network spanning the entire length of the country and the construction of a second international airport. Both projects would be very expensive, and neither has undergone a feasibility study. Instead, they reflect the president's penchant for large-scale construction projects that may not necessarily be a priority. While they are still occasionally mentioned, these and other public works depend on more pressing government funding concerns, such as salaries, operating costs and loan repayments.

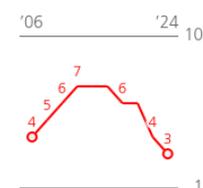
Bukele's government has demonstrated very little ability to learn from past policies. The president rejects the two dominant traditional parties, FMLN and ARENA, due to their associations with corruption, nepotism and inefficiency. Additionally, he has made efforts to distance himself from his political origins in the FMLN. However, the president has failed to grasp the functioning of a representative government and the importance of the separation of powers. Since his party gained control of both the legislature and the Supreme Court, almost all laws have originated in the executive branch and been approved by the legislature with minimal debate or modification.

Furthermore, Bukele and his ministers have refused to disclose information regarding spending and bidding, aided by the provisions of the states of emergency and exception that grant the government the ability to operate covertly. This behavior has resulted in conflicts with foreign governments and lending institutions, which is highly unusual for a country heavily reliant on remittances, foreign aid and investments. For instance, the International Monetary Fund (IMF) has urged the government to reconsider its recognition of Bitcoin as legal tender, yet the government remains unwavering in its stance. Additionally, the United States Agency for International Development (USAID) has suspended assistance to the government due to its disregard for human rights and democratic governance.

Overall, Bukele's government takes full credit for its achievements and blames others for its shortcomings and failures. An examination of the government's newspaper is a good indicator of how it views its own accomplishments in a completely positive

Policy learning

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light and disregards any opposition. The administration is unwilling to engage with or seek advice from experts associated with universities or think tanks, as it is reluctant to consider contrary opinions.

15 | Resource Efficiency

The number of public employees increased between 2012 and 2019 by a rate of 3,000 or more per year. However, in 2020, it dropped by a little over 8,000 as COVID-19 hit, only to fully recover in 2021 when total public employment reached 170,472 persons. Of these, 23.9% were teachers, 22.6% were in administrative jobs, 30.7% served in some technical or professional capacity, and 14.8% provided security functions, mostly working for the police. The remaining employees worked in maintenance and general services (6.9%) or held executive positions (1.2%).

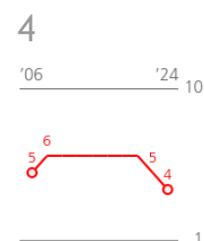
Government employee salaries accounted for 38.8% of all central government expenditures in 2021. However, including transfers of funds to other public institutions and offices would somewhat increase the amount spent on the salaries of public employees. For instance, municipalities received 10% of the national budget through the end of 2021. Subsequently, the legislature transferred most of these funds to a new national public works office, which operates under direct presidential control.

The government's budgets have been unbalanced in recent decades, especially since 2011, when pension funds required injections of public funds to remain solvent. While public debt rose from \$12.9 billion to \$18.88 billion between 2011 and 2019, it remained within the range of 60% to 70% of GDP. Relative debt stability ended in 2020, when emergency loans increased total public debt to \$21.65 billion, or 88.1% of GDP. The disproportionate increase in debt versus GDP was due largely to the pandemic-era economic contraction, which recovered somewhat in 2021 and reduced public debt to 81.0% of GDP, or \$23.26 billion. However, forthcoming debt repayments and a possible recession in 2023 will necessitate public spending cuts.

The significant spending increase since 2020 has raised concerns about mismanagement of public funds. The government's auditing office (Corte de Cuentas de la República) has proven ineffective because it is run by political appointees who are committed to covering up corruption as part of deals among parties. The anti-corruption commission Bukele promised was short-lived, and the government has proceeded to operate under rules of secrecy for contracts and purchases.

A crucial underlying problem is the absence of a professional and stable civil service. The law governing public employment, dating back to 1961, allows government departments so much leeway that public employment is generally seen as a means of reward for political supporters, making professional qualifications a secondary consideration. Given the comparatively limited number of new jobs created by the private sector, government employment is highly coveted.

Efficient use of assets



More than any other president in recent history, Bukele has associated his public persona with significant government initiatives. His Twitter feed consistently informs his followers of his stance on political and public matters. His cabinet ministers frequently cite his directives, and the legislature has largely become a rubber stamp for his bills. Consequently, it is challenging to distinguish between the president's own opinions and objectives and what constitutes "policy," despite his initial proposal of enhancing government operations through the establishment of interministerial committees tasked with collaborating on specific issues.

Needless to say, his confrontational and inflexible governing style has set the stage for numerous public exchanges with CSOs, foreign governments and international financial institutions – particularly regarding his disregard for constitutional procedures, the introduction of Bitcoin as a legal currency and the crackdown on gangs. Instead, the president consults with like-minded individuals and acts accordingly.

The lack of political consensus over key government measures resonates with an electorate that admires the assertive and resolute actions of a president who appears to achieve results, despite the impact on the country's position within the democratic community. This is where President Bukele's coordination efforts are most apparent. He directs joint operations between the army and police for security purposes, but this leads to an overwhelmed judiciary and prison system, with tens of thousands of detainees, while his government has concurrently dismissed hundreds of judges.

One of President Bukele's most persuasive campaign slogans – "There will be sufficient money if no one steals" – refers to the systematic embezzlement of government funds by previous presidents. Early in his government, he announced the creation of a commission supported by the Organization of American States (OAS) to investigate corruption but dissolved it shortly afterwards. He also appointed an independent commission to oversee pandemic-related expenditures, but its members resigned within weeks because they were not provided with the documents that they requested. Subsequently, the government began sidestepping normal bidding procedures under the state of emergency it had enacted. A similar provision was included in the "state of exception" decreed in 2022 in response to a spike in public violence. Additionally, the government office in charge of access to public information has denied requests from journalists and NGOs to see the contents of contracts and purchases.

Government corruption is a constant, and institutions designed to prevent it have been largely ineffective. One former president is in jail after being convicted for the misappropriation of public monies, and two others left the country to avoid prosecution for the same crime. A body created in the 1930s to audit government spending has been overwhelmed by the growth of government operations and weakened by the appointment of politically compromised individuals at its head.

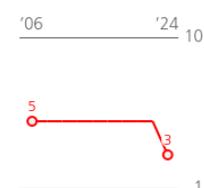
Policy coordination

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Anti-corruption policy

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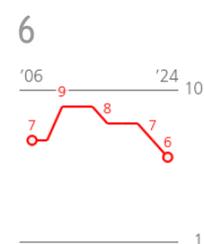
A law passed in 2000 requires all government contracts and acquisitions to undergo specific procedures to ensure transparency and compliance with contract obligations, but it has not been effectively implemented. It was superseded by a new law in January 2023 that allows the executive to award contracts directly by declaring that a given project is of “strategic” importance. Additionally, the Corte de Cuentas de la República, which is charged with auditing government entities and uncovering malfeasance, does not carry out its job properly due to the partisan nature of its management.

16 | Consensus-Building

In recent decades, El Salvador has had an unblemished record of political stability and regular government turnovers. This stability and predictability began to unravel after Bukele’s 2019 election, especially after his party gained a majority of the legislature in 2021. All the electoral procedures that gave him and his party control of the government were followed scrupulously, and nobody questioned their legitimacy. However, the separation of powers, respect for mandated constitutional procedures and access to public information have been greatly strained. In February 2020, Bukele entered the legislature accompanied by armed troops and police, demanding that lawmakers approve a public security loan. During the next two years, while the opposition still controlled the legislature, and as COVID-19 became the principal political issue, Bukele issued decrees that were rejected by the legislature and the Supreme Court. The standoff was resolved when Bukele’s party won the legislative elections in February 2021 and proceeded to replace the Supreme Court judges who had ruled against his decrees, as well as the attorney general, who was investigating a number of government corruption cases.

With near-total control of the three branches of government, Bukele altered the operation of the existing democratic order and proposed further changes. Firstly, the executive became the exclusive source of legislation, a shift swiftly approved by the legislature, as the opposition’s input currently carries little weight. Secondly, under the president’s direction, the vice president presented a constitutional reform proposal that would change over three-quarters of all constitutional articles. Particularly concerning is the extension of the presidential term from five to six years, the possibility of future constitutional reforms by referendum, the requirement that all university graduates belong to a government-sanctioned association to practice their profession, and the creation of broader functions for the army. Thirdly, the new Constitutional Chamber of the Supreme Court permitted Bukele to run for re-election in 2024 after reinterpreting a constitutional provision that previously forbade it. Finally, the legislature can now more easily remove Supreme Court judges before their term expires, as it did in May 2021.

Consensus on goals



The government has also discussed reducing the number of municipalities from 262 to 100 by merging some that have few inhabitants and redrawing the boundaries of others. This proposal makes sense given the significant changes in population distribution and density that have occurred in the past decades. However, it could also be misused to redraw the political map to favor the party in power and further centralize power in the capital.

All political forces are committed to a free and socially responsible market economy. President Bukele's near-total control of the government since the legislative and municipal elections of February 2021 has not altered this commitment, except for the high levels of deficit government spending and sovereign debt obligations, both of which have negatively affected the country's credit rating.

Even so, the economy has been performing poorly, with an annual growth rate mostly below 2.5% before a sharp decline during 2020 due to COVID-19 restrictions. Part of the problem is linked to sluggish export growth, which the IMF associates with a high concentration of markets. In 2021, 40.0% of Salvadoran exports went to the United States, and 45.6% went to Central America. Additionally, there is a concentration of exports across products, with textiles accounting for 30.0% and plastic goods accounting for 7.8%. Thus, a more diversified export base would create more opportunities for investment and generate more employment.

Another problem is reliance on remittances, which constitute up to one-quarter of GDP and have contributed to the growth of consumption and a service sector heavily reliant on imports at the expense of local employment-generating production. A byproduct of remittance flows was the decision to dollarize the economy in 2000 – a move that put a brake on inflationary tendencies but limits the government's fiscal and monetary policy options. The introduction of Bitcoin as legal tender was motivated by the goals of attracting foreign investment, reducing reliance on the U.S. dollar and increasing personal wealth.

Finally, violence has dampened potential investment – foreign and national – and weighs heavily on the economy in terms of security expenses and extortion payments demanded by gangs. Bukele's recent crackdown on gangs via mass arrests is a last-resort measure to bring social violence under control but has damaged the country's image abroad.

The reforms leading up to the 1992 Peace Accord put the country on the path to peace, democracy and economic recovery. While peace was achieved, social violence increased, and by 2000, it seemed intractable in the face of preventive or punitive measures. Economic growth remained sluggish after the world recession of 2008/2009. When cases of large-scale corruption involving top government officials were uncovered after 2010, democracy was also delegitimized. Nayib Bukele organized his successful presidential campaign (2018 – 2019) against this background, promising to do away with corruption, inefficiency and social violence but saying little about altering the political system. The 2021 elections handed his party control of the legislature and a majority of municipal governments, thereby enabling him to govern in an increasingly autocratic manner. Given the scale of his electoral victories and his high approval ratings, there is very little effective political opposition to his gradual undermining of democracy.

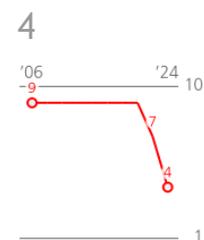
Bukele has assembled a governing coalition of interest groups, including small political parties willing to support the government in exchange for government positions. Additionally, this coalition encompasses a new generation of politically active individuals who were closely associated with Bukele during his tenure as mayor of San Salvador, as well as others who joined his movement in search of employment opportunities. The armed forces, which were marginalized for decades, were promised a larger budget and a significant role in law enforcement by Bukele, leading them to align with this coalition. Furthermore, a portion of the business community, benefiting from government contracts, has also joined forces with Bukele. Their view on democracy is contingent upon it serving their own interests. Of utmost importance, wide segments of society approve of the government's crackdown on the gangs, as these gangs have since been largely dismantled, diminishing their negotiating power.

El Salvador lacks any ethnic or religious cleavages that could potentially lead to overt conflict. Due to its small size, the country experiences minimal regional and cultural disparities, and the influx of immigrants has been successfully integrated into the country's economic and social fabric. This is evident in the fact that the current president and two previous presidents hail from third-generation immigrant families. Furthermore, the 1980s civil war primarily revolved around class divisions intertwined with political and economic marginalization.

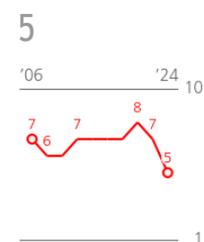
Today, political and social movements are heterogeneous in terms of their social makeup; that is, they need to appeal to voters from all social strata if they wish to achieve some level of electoral success. Occasional racist or ethnically charged slurs appear on social media, but these are marginal opinions.

President Bukele was elected by a clear majority of votes after promising a clean break with the past. Accordingly, he has been particularly critical of the political parties and their leaders who were involved in the social conflicts that led to the 1980s civil war and the peace negotiations that ended it. He has described the war as a

Anti-democratic actors



Cleavage / conflict management



needless confrontation that produced suffering and only benefited the leadership of both sides. His political party has refused to participate in the yearly commemoration of the signing of the peace accord, calling instead for a day of remembrance for the victims of the war. This might make sense politically, as it attracts younger voters who know little of past conflicts, but it also angers those who struggled to install democracy after decades of authoritarian rule.

Further polarization means that pressing social, economic and environmental issues might not receive sufficient support under a national consensus. However, if Bukele's popularity remains strong, the necessity for a consensus diminishes significantly.

Most civil society organizations (CSOs) disapprove of Bukele's administration due to two conflicting perceptions regarding the government's role. CSOs primarily emerged from the political landscape prior to Bukele's presidency, with their main concerns centered around upholding and reinforcing democratic rule of law, safeguarding human rights, preserving the environment, advancing social justice and combating gender inequality. Presently, Bukele faces criticism for disregarding constitutional procedures and mishandling public funds without proper auditing measures during the pandemic. In response, the president has reproached several CSOs for pursuing an agenda influenced and financed by foreign sources, particularly singling out journalists employed by independent media outlets.

The government has made some tentative efforts to engage with civil society actors. It has held discussions with certain labor unions regarding wages and working conditions, resulting in an increase of the minimum daily wage to \$8 to \$9 for agricultural laborers and \$12 for workers in industry and shops. Moreover, the government has brokered agreements with select Catholic clergy to modify sex education in public schools, in return for receiving qualified support for Bukele's re-election from these figures. Additionally, the government has made overtures to organizations representing Salvadorans residing in the United States and other countries in order to encourage them to vote abroad. Nonetheless, the government asserts its self-sufficiency based on its high approval rating and refuses to accept that significant decisions and actions can originate from sources outside the president's office, let alone through engagement with civil society.

Reconciliation has been very difficult for a country that suffered more than 70,000 nonmilitary violent deaths during the civil war (1980 – 1992). Until recently, it was not possible to prosecute individuals who participated in human rights violations or mass killings during the civil war due to a blanket amnesty law approved in 1993. However, in 2016, the Supreme Court ruled that the amnesty law was unconstitutional and ordered prosecutors to proceed with cases. However, only a fraction of the cases, particularly high-profile ones that received international attention, have been possible to prosecute due to the large scale of human rights violations. Examples include the murders of six Jesuit priests and their two housekeepers in 1989, as well as the El Mozote massacre in 1981, both of which were carried out by the army.

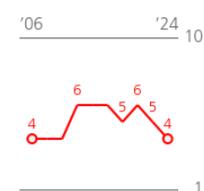
Public consultation

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Reconciliation

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President Bukele has further complicated the work of prosecutors and judges by claiming that all relevant information in army files has been handed over. In general, Bukele's government is not interested in reconciliation and deflects responsibility for the actions of past governments and insurgents.

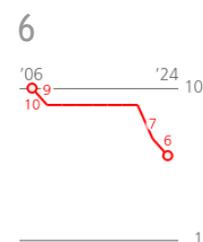
17 | International Cooperation

The volume of foreign aid fluctuated between 0.4% and 2.1% of GNI between 2000 and 2019, while the country's poverty levels decreased and remittance sums increased annually. In 2020, in response to the impact of COVID-19, foreign aid increased to 2.7% of GNI. However, in 2021, the government became entangled in several confrontations with foreign governments concerning the removal of Supreme Court judges and the attorney general. The U.S., for example, chose to reduce aid to the police and redirect it toward CSOs dedicated to defending human rights and promoting government transparency. The EU and various European governments also expressed concerns about the removals but did not decrease or restructure their aid programs.

Besides their critique of the Salvadoran government's political actions, donors have their own priorities. Until 2019, Salvadoran governments generally prioritized the promotion of economic growth within the private sector and directed government spending toward social programs, particularly education and health. These objectives aligned with the concerns of the country's primary foreign donors. U.S. aid was linked to the broader strategic goal of reducing illegal immigration, while the European Union focused on youth development programs and assistance for small and medium-sized businesses and cooperatives. The Biden administration has emphasized the creation of more employment and educational prospects for youth, as well as efforts to address corruption, violence, security and the rule of law in the Northern Triangle. The EU and individual European governments have backed projects in green energy, local development, gender issues and investment opportunities.

In the absence of a comprehensive development policy, the priorities of Bukele's government can be inferred from its actions. First, the government has focused on reducing violence as a precondition for increasing the national and foreign investment needed to accelerate economic growth. Second, the government has announced significant public investments in transportation infrastructure and urban development, with the goal of promoting tourism. Third, it has introduced cryptocurrency as a legal tender with the aim of increasing the amount of money in circulation, providing greater access to financial services for more people and stimulating foreign investment. Lastly, the government has expanded its connections with foreign governments, such as the commercial treaty with China, as a means of diversifying its trading partners and sources of capital.

Effective use of support



It is unclear whether current foreign aid donors will agree to participate in these initiatives. The Paris Declaration on Aid Effectiveness, to which El Salvador is a signatory, commits donors and recipients to establishing priorities for development agendas via processes of consultation, including with local CSOs. However, the currently contentious relationship between the government and CSOs, as well as the lack of government transparency, need to be resolved before aid agencies can feel confident that international cooperation can be put to effective use.

President Bukele has engaged in confrontations with a number of critical governments and international organizations. The most contentious of these are related to the president's disregard for democratic and constitutional provisions regarding freedom of the press, the separation of powers, and respect for judicial decisions and independence. His recent announcement that he will run for re-election in 2024 has been particularly criticized because it goes against the country's constitution as well as the Inter-American Democratic Charter, to which El Salvador is a signatory. His actions are also at odds with those of recently elected governments in the region, such as Chile, Brazil and Colombia, which have emphasized the importance of democratic governance. At the very least, these actions create confusion about the country's direction and raise concerns about President Bukele's commitment to upholding democratic practices and a market economy.

The government has also faced criticism for human rights violations related to the crackdown on urban gangs and for jeopardizing economic stability through the introduction of Bitcoin as legal tender and the state's high levels of deficit spending. Particularly concerning is the lack of transparency in government purchases and contracts issued under states of emergency, which has facilitated corruption and clientelism – matters of significant concern for foreign investors.

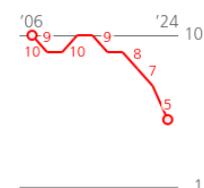
The administration has only partially respected its international climate change commitments. It has promoted investments in renewable energy and diversified the energy matrix but has yet to enact pollution or emission regulations for motor vehicles (the number of which has increased dramatically in recent years) or promote the use of public transportation.

The commitment of successive Salvadoran governments to regional integration and cooperation has been unquestionable. However, relations with some of its partners experienced setbacks during the review period.

Central American countries have been closely integrated since the 1960s, both in terms of commercial exchanges and movements of peoples. Today, El Salvador relies heavily on imports of food from its immediate neighbors and has also made significant investments in them. Therefore, the free flows of trade and capital are vital, as well as the movements of migrant workers, especially during the coffee and sugar harvests. The main offices of the Central American Integration System (SICA) are located in San Salvador. SICA provides coordination and expertise for the ongoing process of Central American integration, which includes a regional development bank and a Central American parliament.

Credibility

5



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Regional cooperation

7



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A migration agreement among the four northern Central American countries was put on hold during the COVID-19 pandemic. Prior to his inauguration as president, Bukele criticized the governments of Honduras and Nicaragua, accusing them of being dictatorships. However, during his tenure, he has refrained from provoking conflict with neighboring regimes.

Ironically, Bukele's most public disagreements have been with the United States, which is the country's most important trading partner, a very important source of investment, and the residence of the largest portion of its population living abroad. Relations with the United States have grown tense since President Bukele took office and deteriorated markedly during the review period. The United States has voiced concerns over the Salvadoran government's restrictions on the provision of information, as well as its undermining of the rule of law and human rights, and the encroachment on the separation of powers. The American government criticized Bukele's dismissal of the judges of the Supreme Court's Constitutional Chamber and the attorney general in mid-2021, as well as the imposition of a long-lasting state of exception, starting in March 2022, that has effectively curtailed civil rights protections. In reaction to the former issue, the United States has imposed sanctions on the five new Constitutional Chamber magistrates loyal to Bukele who have proven amenable to his re-election and has redirected aid away from the police directly to CSOs working in defense of human rights and government transparency.

Bukele's 2024 re-election bid has also raised intense criticism since it contravenes the country's constitution, which prohibits presidential incumbents from re-election for a consecutive term, as well as the Inter-American Democratic Charter, to which El Salvador is a signatory.

Strategic Outlook

Much of the dissatisfaction that propelled Nayib Bukele into the presidency had to do with high levels of corruption during previous administrations, the country's poor economic performance and high levels of gang violence. These issues are challenges that governments and civil society must address in the upcoming years.

The only moderately successful experience in the region with regard to combating corruption has been the Guatemalan Commission Against Impunity (CICIG). President Bukele established a similar commission at the beginning of his presidency but dissolved it shortly afterward. Corruption is systemic in the government due to a relatively weak civil service and a party system that relies on handouts (such as jobs, contracts and purchases) to ensure loyalty and support. Therefore, anti-corruption efforts must incorporate a robust international component to counteract resistance from local and foreign actors who profit from corruption.

If the economy is to become stronger, more expansive and more sustainable, the reliance on remittances to finance a significant portion of the country's imports must be overcome. More productive investment must be attracted to areas where the country has – or needs to achieve – a competitive advantage and where employment opportunities can compete with migration as an alternative for the younger generation. Some of these areas include tourism; niche agricultural export products such as specialty coffees, fruits, nuts and cocoa; and light manufacturing.

For any of these initiatives to prosper, a less violent environment will be necessary, which is being achieved but at a considerable political cost to the constitutional and legal order. Of particular concern is the return of the army to large-scale policing duties and as a political prop for the government. At the very least, the country's elite – political, academic, entrepreneurial and professional – must ask itself whether massive and arbitrary arrests and incarcerations are the right approach for achieving positive and timely outcomes, or whether they are only improvised, short-term expediences implemented for political benefit.

Other challenging issues involve the sustainable management of key natural resources, especially land and water. El Salvador is the most water-stressed country in Central America, but little is being done to ensure long-term access to water and energy production. Aquifers are not being replenished sustainably, and surface waters are highly contaminated. The absence of forest cover leads to significant erosion, siltation of hydroelectric dams and permanent soil loss. The highest priority should be given to the construction of sewage treatment plants and the reforestation of watersheds, with stricter controls on water consumption being necessary.

The underlying challenge is government funding. The high levels of accumulated debt will not make it any easier to secure new loans from international financial organizations or local funding sources. Therefore, the tax structure needs to be revamped to increase government income as a proportion of GDP, while also reducing spending on verifiably nonessential items. Addressing the debt issue also partly depends on improving the country's democratic standing, starting with the restoration of basic civil and human rights.