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CONFLICT ASSESSMENT: EL SALVADOR

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Final Report

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The views and recommendations expressed in this report are solely those of the MSI Assessment Team and are not necessarily those of USAID or the U.S. Government.

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EXECUTIVE SUMMARY

This Conflict Vulnerability Assessment (CVA) was carried out through a contract from the Democracy and Governance Office of USAID's Bureau for Democracy, Conflict and Humanitarian Assistance (DCHA/DG) to Management Systems International (MSI). A four-member team, which included three MSI specialists and a member of the DCHA/DG staff, conducted research in El Salvador during the first quarter of 2004. The Statement of Work stated that the purpose of the CVA was to assist the USAID/El Salvador Mission to "understand the possible sources of social, criminal, political and economic conflict during the medium term," and to "result in recommendations regarding areas of focus in the development of El Salvador's 2004-2008 Country Plan to address any potential conflict areas or variables that are identified through the assessment process."

This report concludes that widespread, violent conflict is unlikely to occur in the short- to medium-term (e.g., next 5 years). However, the report also concludes that the sources of political instability are latent and could, without great difficulty, become manifest over the longer term. Four key problems that make the country vulnerable to conflict are identified.

First, all too many Salvadorans remain in poverty. Though the poor have declined from 57.5 to 36.8 percent of the population between 1992 and 2002, low economic growth rates suggest that further reducing the ranks of the poor may become increasingly difficult. Moreover, most of the population that is no longer classified as poor has hardly joined the ranks of the middle class; again, low economic growth rates suggest that their standard of living has reached a plateau where scarcity and struggle are their most familiar companions. Poverty is considerably more acute in rural areas and numerous interviewees cited the "neglect" of the rural sector by the government of El Salvador.

Second, the economic inequality and class barriers that underlay the civil war have not improved greatly since the peace accords. Income and wealth remain highly concentrated. Though perhaps no longer limited to 14 families, a small number of households nevertheless do exceedingly well. Between 1992 and 2002, the top ten percent of the population has gone from receiving 32.7 to 38.9 percent of national income. Inequality can lay the bases for conflict because, on the one hand, it makes the elite fearful. Living amidst poverty and scarcity, especially when a political party exists reminding society that some live much better than most, makes the elite likely to misinterpret any change in political winds as a direct threat to their existence. On the other hand, inequality in the context of a no-growth society makes many in the majority resentful and willing to embrace counter-hegemonic political movements. Both parts of society may lose unless more Salvadorans can benefit from the distribution of wealth.

Third, although the political system has undergone substantial changes in the years following the 1992 peace accords, it still does not guarantee public safety and the framework necessary to promote economic development. The destruction of a repressive military regime and the creation of a respected police force are major accomplishments, ones that remind Salvadorans that a lot has changed in their society. That the left and the right can campaign freely and hold public office without being killed are also outcomes that show how much has changed. Yet, a political system that is not promoting economic development and addressing the social causes of crime – both perceived as major problems in El Salvador – runs the risk of losing public confidence. Lack of transparency in the operations of government institutions further undermines confidence. Public opinion surveys reveal that less than half of all polled express satisfaction with their democracy. This disenchantment provides a potential basis for either end of the political spectrum to engage in violence.

Fourth, the polarization of the party system, one where ARENA and the FMLN hold close to two-thirds of the legislative seats and municipal councils, lays the groundwork for political confrontation that can potentially spark violent conflict. In a separation of powers system where no party holds both the presidency and a legislative majority, polarization could intensify if each of the elected branches of government pursues a different agenda. Virtually every other presidential system with divided government has ended in stalemate. In the context of severe economic and social problems, stagnation and even extra-constitutional changes in executive authority can snowball into violent confrontation between left and right..

Despite these circumstances that make El Salvador vulnerable to violent conflict, there are a number of countervailing factors that make it more likely that the peace will hold. Two stand out. First is the fact that the left and right have done well by the system they reformed in the early 1990s. ARENA continues to be the party in control of the presidency, a fact that reassures its financial backers that their interests remain protected. As a political party, the FMLN has grown since the signing of the 1992 Peace Accords. Its share of municipal councils has gone from 15 to 74 between 1994 and 2003, and its percentage of legislative seats has increased from 25 to 37 percent during the same period. Its presidential candidates garner more and more interest, if at least for the reason that voters are ready to give someone else a shot at holding the presidency. Both parties thus have strong reasons to stay engaged in the political system rather than turn to violent conflict.

The second reason why widespread, violent conflict is unlikely to begin over the next five years stems from the escape valve that illegal immigration to the US provides. Individuals who might contemplate joining an armed movement, gangs (which already are havens for unemployed and undereducated youth), and organized crime are busy working illegally in the US or trying to get there. Moreover, the estimated 2 million Salvadorans who reside in the US send remittances that now amount to \$2 billion a year (approximately 14 percent of GDP). This income is indispensable to fund the deficit on the current account and thus to maintain macro-economic stability. Remittances also help to mitigate the grievances spurred by poverty and economic inequality and make the Salvadoran households that receive them more interested in political stability than in regime overthrow.

Over the next five years, Salvadorans will have to make difficult policy choices. Crime remains one of the most important concerns in terms of public opinion. Despite high public ratings, the National Civil Police will not be able to solve the crime problem single-handedly. Developing anti-poverty programs that raise incomes and provide people with the skills to find a job requires well-financed public policies, not to mention a growing economy generating reasonably well-paying jobs. More fundamentally, Salvadorans will have to begin to pay more taxes, the only way that a chronically under-funded state has of meeting the demands for better public education, more crime-fighting programs, and more health care. Yet, it will be hard to forge a consensus for increasing state revenues from 10-12 percent of GDP, which is one of the lowest rates in the western hemisphere. Though raising revenue requires cooperation between ARENA and the FMLN, divided government in the context of a separation of powers system empowers each side to play to its supporters.

The team makes six recommendations aimed at helping to mitigate the root causes of conflict over the next five years and assist Salvadoran institutions to manage the potential for conflict. The recommendations entail working from both the bottom up and the top down.

First, we recommend that USAID promote multi-sectoral dialogue on key policy issues such as tax reform and economic development. This would serve several purposes. By focusing such discussions on concrete policy issues, USAID can help ARENA and the FMLN bridge the ideological distance between them and reduce the polarization of the political system. Moreover, policy dialogues among key actors, citizen groups, and foreign and domestic experts can help “open up” the system, increasing confidence in

government. Finally, such discussions should help to forge realistic solutions to some of the difficult problems of poverty, inequality, crime and economic stagnation that underlay the grievances of many Salvadoran citizens. A government and political system that is able to make inroads on these problems will, in turn, generate more confidence in itself. Although this is a low-cost activity, it would require a sustained commitment by the mission in order to produce results, given the entrenched views of the various parties.

Second, USAID should play a strategic role by helping to jumpstart a policy network that would monitor the behavior of legislators, judges, and auditors. An independent source of information about the activities of these institutions – one useful to citizens, NGOs, journalists, and academic researchers – can help fill knowledge gaps and increase the transparency of the government, thus enhancing public confidence and reducing the likelihood that Salvadoran citizens would turn to violent conflict to address issues. This activity would build on current democracy programs that engage many of the relevant NGO, think tank, and university actors.

Third, USAID should continue mission programs that support community development efforts. These programs give citizens a stake in their own governance and confidence that the government is committed and able to solve some of their immediate problems.

Fourth, the mission should continue to support mediation centers and pioneering activities in community policing. Both activities help to address the “culture of violence” often ascribed to El Salvador, establish non-violent patterns for addressing conflicts, and increase involvement and confidence in government, again reducing the likelihood that citizens would be willing to join movements of widespread violence.

Fifth, USAID should continue or expand support for other current programs in the agricultural, economic, environmental, and justice sectors that address the root causes of grievances and potential conflict. These programs include earthquake recovery, primary health care, watershed management, rural water supply, expanded rural financial services, environmentally sound agricultural export promotion, and basic education improvements for rural poor families, micro- and SME development and, on a pilot basis, crime prevention efforts (i.e., outreach to at-risk youth, rehabilitation of gang members).

Sixth, USAID should take steps, in close collaboration with the Embassy, to mitigate the potential for conflict in response to specific triggers, including upcoming elections and the end of the Multi-fiber Agreement (MFA). The degree of political polarization in the country raises the stakes for all elections in El Salvador and particularly for presidential elections. USAID and the U.S. Embassy should prepare for all possible outcomes, not only the single most likely outcome. Confidence-building measures could include early, credible quick counts and clear U.S. public and private policy messages calling for respect for any outcome of a legitimate process. In many ways, El Salvador’s democratic transition will not be fully tested until control of the Executive passes from one party to another. That passage represents an important challenge that lies ahead.

The end of MFA will bring all Central American textile and apparel industries under severe stress and is likely to trigger significant job loss in urban areas. In the past, violence has accompanied *maquiladora* closings primarily when companies failed to pay agreed severance packages. USAID should work with the trade unions and business community to ensure that agreed severance packages are respected, workers are retrained if opportunities exist, and other conflict mitigation steps are taken.

I. INTRODUCTION

The Democracy and Governance Office of USAID's Bureau for Democracy, Conflict and Humanitarian Assistance (DCHA/DG) contracted Management Systems International (MSI) to conduct this CVA. For this purpose, MSI provided the services of Dr. Fabrice Lehoucq, a political scientist, and Joan Goodin, MSI Senior Associate, as Co-team Leaders. Both have experience in El Salvador and are fully bilingual. In addition, MSI contracted local economist Francisco Molina to handle tasks related to economic analysis. The fourth team member was Madalene O'Donnell, who leads the anti-corruption section and backstops El Salvador for DCHA/DG.

As shown in the Statement of Work (see *Annex A*), the purpose of this CVA is to assist the USAID/El Salvador Mission to "understand the possible sources of social, criminal, political and economic conflict during the medium term." Additionally, this activity is to "result in recommendations regarding areas of focus in the development of El Salvador's 2004-2008 Country Plan to address any potential conflict areas or variables that are identified through the assessment process." It should be noted that, for assessment purposes, conflict is defined as "widespread, violent conflict."

The CVA team relied on the Conflict Assessment Framework published in January 2002 by USAID/DCHA's Office of Conflict Management and Mitigation (CMM) to organize its work. The framework facilitates data collection and analysis, leading to conclusions and the formulation of recommendations. It calls for the exploration of four key causes of conflict and the inter-action between them: 1) Root Causes: Grievance and Greed; 2) Mobilization and Expansion: Access to Conflict Resources; 3) Institutional Capacity and Response; and 4) Windows of Vulnerability. Finally, the framework calls for exploring external causes, such as globalization and other contextual factors. (See *Annex B* for Framework matrix.) Prior to departure for El Salvador and throughout the conduct of this assessment, the team gathered key documents as references to help inform its analysis. (See *Annex C* for References.)

As called for in the CVA contract, on January 2, MSI submitted a Desk Study to USAID/El Salvador to help identify areas that merited closer attention once the team began work in the field. The Mission circulated the Study to members of the U.S. Country Team and it became a point of departure for discussions with USAID and Embassy personnel, who indicated they had found it useful.

Following a one-day Team Planning Meeting at MSI headquarters on January 9 with the three Washington-based members and the USAID/El Salvador Desk Officer, the full team convened in San Salvador on January 12. That initial session included Sepideh Keyvanshad and Mauricio Herrera of the USAID/El Salvador Democracy and Governance Office, who also participated in a number of interviews with key informants. The team met with the USAID Mission Director in El Salvador on January 12, at which time he requested that our team avoid referring to our work as a "conflict assessment" when conducting interviews. The Mission Director wished to ensure that the CVA not be misinterpreted in light of the March 2004 presidential election. In addition, the Director requested that the team not meet with the heads of government agencies or with political party leaders or presidential candidates. The team fully honored these requests.

The team conducted interviews with some 90 individuals, including key USAID personnel and U.S. Embassy officials. Team members made field trips to Acajutla, Sonsonate, and to San Martín to gather information from municipal officials, local prosecutors, and community leaders. The team held a debriefing on January 27, which some 20 Mission and Embassy representatives attended. The three Washington-based members of the team departed San Salvador on January 30. The team leaders

submitted a draft report on February 6 and, following the receipt of comments from the Mission, this final version was prepared and submitted.

II. HISTORY OF VIOLENT CONFLICT IN EL SALVADOR

The Salvadoran civil war (1978-92) marks both the end and the beginning of two different periods of Salvadoran history. The cold war dominated the world in which Marxist insurgents confronted a right-wing military regime. The struggle between capitalism and communism took on a deadly dimension in a country where a landholding oligarchy spearheaded the development of a coffee-exporting economy, one where most Salvadorans lived in rural poverty. The fact that the civil war started as the Sandinistas succeeded in overthrowing the Somoza dictatorship in neighboring Nicaragua internationalizes the Salvadoran civil war. While Washington supported – and reformed – the government, the Sandinistas and the Cubans endorsed a left-wing guerrilla insurgency.

A military stalemate gradually convinced both the armed forces and the left-wing guerrillas to negotiate an end to the civil war. The 1989 final offensive, for example, proved that the FMLN could still organize surprise attacks on the regime, ones that could bring the rural insurgency to the streets of the capital. Its failure to bring down the regime also demonstrated that the guerrillas could not defeat the armed forces. The final offensive, which became known internationally because military forces killed six Jesuit priests and their housekeeper in 1989, sent the signal that ending the war required each side to make important compromises.

The fall of the Berlin Wall in 1989 also deprived the left and right of some of the issues motivating their struggles. With the fall of the Soviet Union, left-wing guerrillas found that their objective of establishing a centrally planned economy in El Salvador was no longer credible, especially in a small economy dependent upon foreign aid and remittances. The economic disintegration of the Sandinista revolution in neighboring Nicaragua and in Cuba also signaled the difficulty of implanting a socialist regime in the Americas. The Bush administration (1988-92) reassessed its commitment to anti-communist regimes in the Third World in the aftermath of the Cold War. ARENA itself began to reconsider its stance toward the war and the military. The material interests of its elite supporters had begun to shift from agro-export products to commerce and light manufacturing (Wood, 2003a). At both the global and domestic levels, the gradual transformation of interests and world-views therefore made it pointless to continue a war that no one appeared to be winning.

After UN-sponsored peace negotiations, the FMLN and the ARENA government led by President Alfredo Cristiani (1989-94) signed a peace agreement in 1992. Its major provisions included, first, a cease-fire. Beginning on February 1, the gradual demobilization and disarming of the military and the FMLN would end by October 31. Second, while the guerrillas would have to disband and give up their weapons, the military was forced to reorganize and downsize. The ARENA government agreed to dissolve the Treasury Police, the National Guard, and the National Police. It ended the military's pursuit of counterinsurgency operations. The peace agreement transferred intelligence operations from the military to a new State Intelligence Office, one that would report to the president and the Legislative Assembly. Third, the FMLN and the ARENA-led government agreed to form a National Civilian Police (PNC), 60 percent of whose recruits would have to be first-time, civilian applicants. They both agreed that each could only contribute 20 percent of the PNC's rank and file and officer corps. Thanks to the good offices of the UN, delays and violations of the peace terms were quickly detected and resolved in a timely fashion.

The costs of the 14-year civil war were enormous. An estimated 75,000 people died, which the UN-sponsored Truth Commission attributed mainly to military repression and right-wing death squads. The Salvadoran branch of the UN Development Program (PNUD-ES, 2003: 263) estimates that the civil war cost the country \$1,020 GDP per capita. In 2003 US dollars, the Salvadoran GDP would be \$3,246 – or one-third percent higher – if not for the civil war.

By the time the civil war was over, El Salvador also had changed. First, while 66 percent of exports in 1979 were agricultural (coffee, cotton, and cattle), only 18 percent of El Salvador’s exports in 2001 were crops. Light-assembly plants producing textiles for export to the US became the mainstay of the country’s exports. Second, remittances from Salvadoran emigrants in the US grew from \$600 million in 1992 to \$1.7 billion in 2000 (PNUD-ES, 2003: 111), boosting the incomes of ordinary Salvadorans unlike any other export product. Third, the Salvadoran population shifted from being 58.5 percent rural in 1975 to 61.3 urban in 2001 (UNDP figures cited in Wood, 2003b).

Perhaps the most important transformation was institutional. Under US pressure and UN guidance, ARENA and the FMLN backed the political system outlined in the 1983 constitution, one designed between ARENA and the now discredited Christian Democrats (PDC). They accepted this system because its statutes and laws satisfied their office-seeking interests. The closed-list system of proportional representation (PR) for electing the 84 members of the Legislative Assembly gives each party legislative representation comparable to their shares of the popular vote – though, as we will see, some politically salient distortions exist in the process of translating votes into seats. The closed-list system empowered the party leaderships to select legislative nominees, ones that voters would support or reject on election day. Table 1 presents the legislative distribution of seats since 1994.

TABLE 1: PARTISAN SHARES OF LEGISLATIVE SEATS, 1994-2003

POLITICAL PARTY	1994	1997	2000	2003
FMLN	25% (21)	32% (27)	37% (31)	37% (31)
CDU	1% (1)	2% (2)	4% (3)	6% (5)
OTHERS	1% (1)	7% (6)	2% (2)	
PDC	21% (18)	12% (10)	7% (5)	5% (5)
PCN	4% (4)	13% (11)	15.5% (14)	19% (15)
ARENA	46% (39)	32% (28)	34.4% (29)	32% (28)

Source: Wood, 2003b.

Notes: The parties are listed from left (top row) to right (bottom row). Coalitions with one of the parties listed in the chart are added to that party’s total. Numbers in parentheses are the actual number of legislative seats.

The runoff system for electing the chief executive (e.g., if no candidate obtains more than 50 percent of the vote, a second round is held between the first two runners-up) rewards the party fielding a centrist candidate, an incentive that had been encouraging ARENA to soften its hardline, anti-communist message since the 1980s. This was a lesson that ARENA had learned in 1985, when the PDC’s José Napoleón Duarte defeated ARENA’s founder, Roberto D’Aubuisson. Unlike the reformist Duarte, D’Aubuisson had

an unsavory reputation as an anti-communist hardliner, one with links to right-wing death squads. Five years later, ARENA fielded a snappy, professional-looking, U.S.-educated businessman, Alfredo Cristiani, whose more moderate image attracted the centrist voters necessary to win the presidency

The 262 municipal governments provided another set of elected offices, ones useful for employing party activists and forshaping public policy. Each municipal council consists of a mayor and municipal councilmen (*síndicos* and *regidores*). Each are elected to serve three-year terms concurrent with those of the legislature. The party slate that obtains a plurality of the vote wins the entire council, a winner-takes-all system that, if three or more viable candidates are competing, delivers municipalities to a party with a minority of the vote. For the FMLN, with supporters spread throughout the rural parts of the country, elected municipal councils cemented links with their constituents. Electing FMLN candidates to municipal governments also demonstrated trading guns for ballots had yet another benefit, one that allowed the left to promote its interests within the new political system. The FMLN has gone from winning 16 municipalities in 1992 to 75 in 2003, as Table 2 reveals.

TABLE 2: MUNICIPAL COUNCIL RESULTS

POLITICAL PARTY	1994	1997	2000	2003
FMLN	15	54	77	74
CDU	0	0	4	5
OTHERS	1	11	22	3
PDC	28	19	16	19
PCN	10	18	33	52
ARENA	208	160	130	109

Source: TSE official statistics.

Note: The parties are listed from left (top row) to right (bottom row). Coalitions with one of the parties listed in the chart are added to that party's total.

Both sides also agreed to form an international-led Truth Commission in 1993. The FMLN agreed to the government's request not to empower the Commission to investigate and prosecute war criminals and human rights abusers. Once the Truth Commission concluded that the army and its paramilitary allies were responsible for most civilian deaths and atrocities, the ARENA-dominated government passed an amnesty law in the days immediately following publication of the report.

The biggest loser in the peace settlement was the military, the right's erstwhile ally. The armed forces lost control of the police and intelligence, functions vital to its conception of the guardian of national security. ARENA's President Cristiani cashiered leading officers after the Truth Commission issued its human rights report. Almost unique among the transitions from authoritarian rule in the last decades of the twentieth century, the Salvadoran military underwent a thorough house cleaning and was held responsible for its anti-democratic past.

III. ROOT CAUSES OF CONFLICT: GRIEVANCE AND GREED

This section identifies the most relevant root causes of potential conflict in El Salvador. Most of our discussion revolves around the consequences of economic underdevelopment. Until the economy grows faster, large numbers of Salvadorans will remain in poverty or on limited incomes, constituencies that can

be potentially mobilized for widespread conflict. Moreover, until more Salvadorans begin to benefit from development, economic and therefore political power will remain concentrated and create the basis for class conflict and potentially violent conflict. The two other issues identified as potential root causes of conflict are environmental degradation and crime.

ECONOMIC UNDERDEVELOPMENT AND ITS CONSEQUENCES

The most important and enduring root cause of conflict in El Salvador has been, and continues to be, economic. While not one of the poorest countries in the world or even in Latin America, El Salvador has witnessed an unimpressive economic performance since the end of World War II. In 1950, GDP per capita in El Salvador was \$1,489, some 40 percent lower than the average of \$2,554 for the 44 Latin American countries (1990 international \$). Half a century later, its GDP per capita had not quite doubled to \$2,717, even though the Latin American average did increase by a factor of two to \$5,795.

Numerous studies show that low levels of economic development, along with slow growth, fuels political instability (Bates, 2001; Fearon and Laitin, 2003; Przeworski, Alvarez, Cheibub, and Limongi, 2000). Moreover, a weak state itself undermines the economic growth indispensable for increasing standards of living and making citizens interested in preserving the status quo. For much of the post-World War II period, El Salvador has been a good example of both. The absence of the rule of law and military dictatorship, along with the close association between a landed class and the state, did not encourage the state to invest in human and social capital. Exporting coffee, cotton, and cattle did not jumpstart economic development, even though light manufacturing surged in the 1960s under the protection of the Central American Common Market. As a result, El Salvador remains economically underdeveloped.

Lackluster Economic Growth – Civil war led to economic stagnation for much of the 1980s. Though El Salvador’s GDP grew by 6.85 percent in real terms between the signing of the peace accords and 1995, it has grown by an annual average rate of less than 2.7 percent between 1995 and 2002. Average annual per capita growth rates are even lower: while real GDP per capita grew by a respectable 4.04 percent a year between 1992 and 1995, they averaged 0.7 per year between 1995 and 2002 (see Table 3).

TABLE 3. REAL GDP AND PER CAPITA GDP ANNUAL GROWTH RATES, 1992-2002
Annual percentage change

	1992-1995 ¹	1996-2002	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Year	6.5	2.8	7.5	7.4	6.1	6.4	1.7	4.2	3.5	3.4	2.0	1.8	2.1
Real GDP	6.5	2.8	7.5	7.4	6.1	6.4	1.7	4.2	3.5	3.4	2.0	1.8	2.1
Real per capital GDP	4.8	1.0	5.9	5.6	4.2	4.5	-0.4	2.1	1.6	1.4	0.2	-0.2	0.2

¹ Average annual increase

Source: Central Reserve Bank

Interviews suggest that several factors were responsible for robust growth rates in the early 1990s. A host of economic reforms – including tax reform, financial sector liberalization and privatization, elimination of price and exchange rate controls, and tariff reform – helped spark economic growth. The end of the war changed business perceptions and that of the population in general that provoked a recovery in investment, employment, and consumption. Easier access and availability of consumer credit also boosted consumption.

The slowdown of economic growth is the result of a combination of domestic and international factors. The post-war investment and consumption boom ended by the mid-1990s. Restrictive monetary policies to keep inflation under control caused declines in investment and consumption. Finally, the deceleration

of the U.S. economy contributed to the slowdown in growth rates in El Salvador, as in the rest of the world.

Interviews with economists across the political spectrum, however, suggest that the slowdown may be here to stay because the economy is not competitive. Infrastructure is of low quality and that the educational system is not equipping Salvadorans with the skills to work in advanced manufacturing and service sectors. The lack of competitiveness is reflected in low investments rates. As Table 4 indicates, despite low levels of inflation (average end of the year inflation for the last five years is slightly higher than 2 percent), low exchange rate risk, and real average lending rates of 6-7 percent, the private sector is not investing in the country. Private sector investment levels are in fact only slightly higher, without including the war years, than the historic levels of such investment.

TABLE 4. GROSS DOMESTIC INVESTMENT (AS A SHARE OF GDP) AND FOREIGN INVESTMENT (in millions of dollars)

Year	1992-1995 ¹	1996-1998 ¹	1999	2000	2001	2002
Private	15.2	12.6	13.5	14.2	13.8	13.1
Public	3.8	3.4	2.9	2.7	2.9	3.3
Total	19	16.0	16.4	16.9	16.7	16.4
Foreign direct investment	28.5	389.3	231	185	196	208

¹ Average annual rate of growth

Source: Central Reserve Bank

Advances and Limits in Poverty Reduction – The country has witnessed real declines in the numbers of the poor since the end of the civil war. Urban poverty has fallen from approximately 50 percent of the households in 1992 to approximately 29 percent in 2002. Rural poverty, fell from 65 percent of households in 1992 to 49 percent in 2002. Despite these solid gains, a large sector of the population, especially in the rural areas, remains poor. Interviews with local economists also suggest that reducing the ranks of the poor may stall because economic growth remains lackluster.¹

Table 5. Households in poverty, urban and rural (in percentages)

Survey year	Total Country	Relative	Extreme	Total Urban	Relative	Extreme	Total Rural	Relative	Extreme
1992	57.5	30.5	27.0	50.4	29.6	20.8	65.3	31.5	33.8
1995	47.7	29.4	18.3	40.3	27.7	12.6	58.2	31.8	26.4
1996	51.9	30.3	21.6	42.9	28.2	14.7	54.7	23.3	31.4
1997	48.1	29.6	18.5	38.7	26.7	12.0	61.6	33.7	27.9
2000	38.8	22.8	16	29.8	20.6	9.2	53.8	26.6	27.2
2002	36.8	21	15.8	29.4	19.1	10.3	49.2	24.2	25.0

Source: MPHS

Income Inequality – According to in World Bank (2003: 1), Latin America has the most unequal income distribution in the world. Income distribution in El Salvador has historically reflected this same

¹ Relative poverty refers to the population that have enough income to satisfy its basic food needs or BBF, but whose income is insufficient to cover an Expanded Basic Basket (two times the BBF), that would allow them to satisfy other basic needs, such as medicines and wardrobe. People living in extreme poverty are those who do not have the income necessary to satisfy a BBF. Total poverty is the sum of the two previous groups.

inequality. Data suggests that the disparity may have gotten worse in the decade since the peace accords were signed.

In 1992 the three poorer deciles received 8.4 percent of total income. By 2002, their income share had fall to 5.9 percent of total income. The income of the richest decile, in contrast, had increased from 32.7 percent of total income in 1992 to 38.9 percent. Some economists attribute the slow economic growth since 1996, the increase in the informal sector, and the contraction of the agricultural sector to this worsening income distribution. Others blame unfortunate policy decisions. Interviews suggest that neglect of the agricultural sector, charging VAT on medicines and foodstuffs, and the single-minded focus on maintaining macro-economic stability were the policies most responsible.

TABLE 6. INCOME DISTRIBUTION, 1992 AND 2002 (IN PERCENTAGES)

Deciles	1992	2002
1	1	0.8
2	3	2
3	4.4	3.1
4	5.8	4.3
5	6.9	5.6
6	8.3	7.2
7	10	9.2
8	12	12.1
9	15.8	16.9
10	32.7	38.9

Source: MPHS, 1992 and 2002

Source: MPHS

Employment and Underemployment – Between 1992 and 2002, Table 7 shows that the unemployment² rate for most years was lower than 8 percent. In the period under consideration, the rate of unemployment for men registered a light improvement, decreasing from 10.2 percent in 1992 to 8 percent in the 2002. The rate of unemployment for women experienced a larger improvement, declining from around 8 percent at the beginning of the nineties to the 3.5 percent in 2002. The latter could be linked to an increase in the labor-intensive *maquila* industry, which employs mostly women. The number of jobs generated by the *maquilas* increased more than four fold in the last decade, from approximately 18,000 in 1992 to near 80,000 for 2002.

TABLE 7. UNEMPLOYMENT RATES, 1992-2002

Year	Total	Men	Women
1992	9.3	10.2	7.7
1992-1993	9.9	11.8	6.8
1994	7.7	8.4	6.4
1995	7.6	8.7	5.9
1996	7.7	8.4	6.5
1997	8.0	9.5	5.3
1998	7.3	8.2	6.0
1999	7.0	8.5	4.6

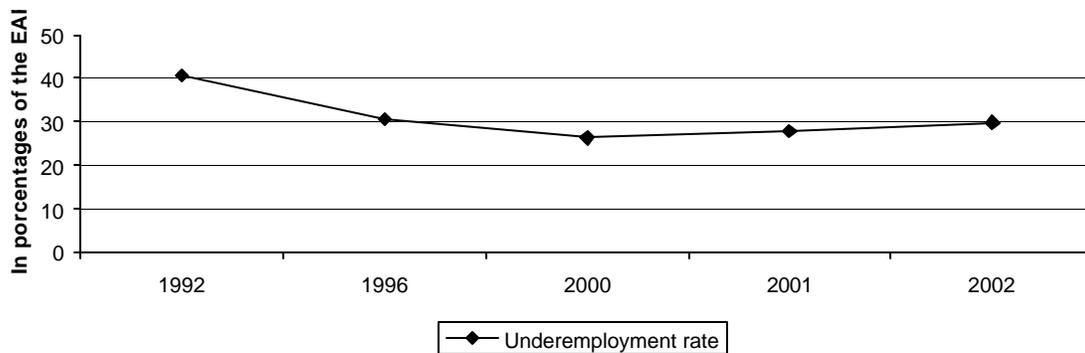
² Unemployment is defined as the population, 10 years or older that is not working, but is actively seeking employment.

Year	Total	Men	Women
2000	7.0	9.1	3.7
2001	7.0	8.1	5.2
2002	6.2	8	3.5

Source: MPHS

The following graph presents the urban underemployment³ trend as a percentage of the EAP, falling from more than 40 percent in 1992 to 26 percent in the 2000. In 2002, the rate of underemployment climbed to 30 percent, a confirmation of the precarious conditions in which a significant number of workers enter the labor market. Information on underemployment in the rural areas does not exist. Nevertheless, it would not be surprising that rural was greater than urban underemployment.

GRAPH 1. EL SALVADOR URBAN UNDEREMPLOYMENT 1992-2002 (AS A SHARE OF EAP)



Source: MPHS

One of the fundamental problems of the Salvadoran economy, however, continues to be creating better paid jobs. Many of the unemployed join the informal sector, through a range of activities that constitute family survival strategies more than real employment. The statistics therefore conceal a more generalized and deeper unemployment problem than is recognized officially. During the past decade, 10 to 20 percent of survey respondents have ranked unemployment as the number one issue facing the country. The overall state of the economy, along with concerns about inflation, is identified as the most pressing national problem for 20 to 30 percent of all voters since the early 1990s (IUDOP polls cited in Call, 2003: 840).

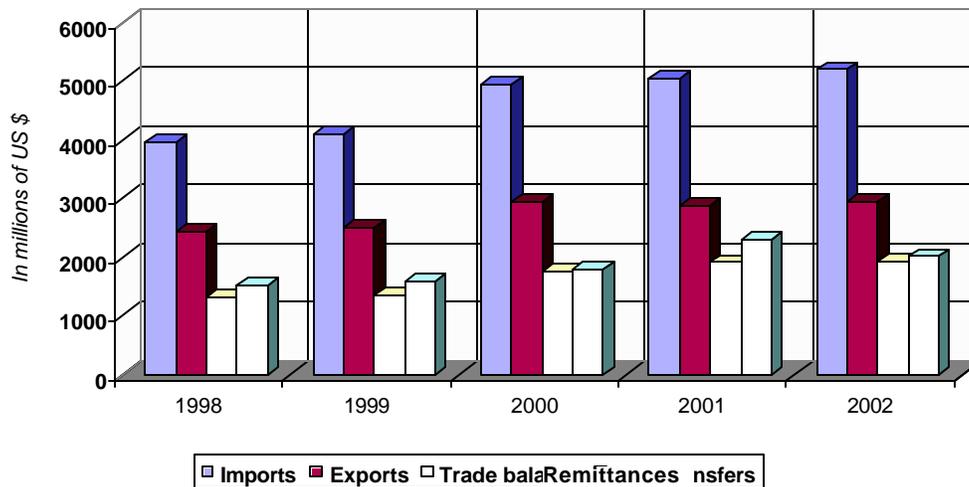
Mitigating Factors – Two factors mitigate somewhat the pressures of poverty and unemployment in El Salvador. First, migration has had a positive effect of reducing the demographic pressure on limited formal sector employment opportunities and has also allowed a window of opportunity to increase access to education and health facilities. The negative side of migration is that it represents a drain in human capital and wreaks havoc with the family. In search of jobs and resources, parents abandon their children or leave them with relatives uninterested or unable to educate the young. Migration therefore undermines the family structures necessary to prepare the young for gainful employment and also contributes to the problem of “idle” youth, a topic we discuss at greater length in another section.

³ Underemployment is defined as the population that involuntarily works less than full time (40 hours a week) and the population that works full time and earns less than the minimum wage (slightly more than five dollars a day).

Second, remittances from those living abroad now amount to approximately \$2 billion a year. These remittances help to mitigate the effects of poverty by stimulating home construction and renovation, school enrollment, and, to a lesser extent, investment in small business. They also help to maintain macro-economic stability in the country by funding the deficit on the current account.

National Economic Vulnerability – Notwithstanding the increase in maquila exports in the 90s, El Salvador continues to depend on transfers to cover its trade deficit.

GRAPH 2. TRADE BALANCE AND REMITTANCES



Source: CRB

A worrisome aspect is that the dynamism of the export sector continues to depend on *maquila* textiles. While in the middle of the 1990s this sector grew at two digits rates, in recent years the rate of growth has been relatively modest, less than 7 percent in 2002. Although recent deceleration in *maquila* exports is mainly explained by the slow growth of the American economy in 2001 and 2002, the medium term expectations, even with the ratification of CAFTA in 2004, are not very encouraging. Competition for nontraditional and *maquila* exports to U.S. markets will be increased significantly with the end of the Multifiber Agreement in early 2005, phasing out trade barriers on textiles and clothing, especially from countries such as Vietnam and China, that pay their workers a fraction of the salaries paid in El Salvador

Furthermore, since 1998 falling export prices (e.g., coffee and sugar) and raising import prices (e.g., oil prices) have contributed to a worsening of El Salvador's terms of trade.

In this context, increasing total factor productivity is essential to remain competitive in world trade, especially with the existence of a strong currency such as the dollar. The experience of other Latin American countries illustrates the importance of having skilled human capital, especially with high levels of education, and sustaining a favorable investment climate in raising productivity and attracting foreign direct investment into higher value added activities.

ENVIRONMENTAL DEGRADATION

Increasing deforestation and deterioration of watersheds adds to the pressure of a stalled economy and extensive poverty, and could help to provoke conflict if not adequately addressed. Despite massive out-migration, El Salvador remains the most densely populated country in Central America. Forests cover only 6 percent of the country, compared to 35 percent across the region as a whole (PER-PNUD, 2003:

196). Over the past decade, tree density has increased in some rural areas (as population density has fallen) but deteriorated in others (due to urbanization and areas affected by the coffee crisis).

Some of the deforestation has occurred in volcanic areas of particular importance for filtration and replenishment of watersheds (PER-PNUD, 183). Urbanization, pollution, and related factors increase contamination of water resources. As a result, many parts of the country experience water shortages during the dry season and deteriorating water quality. According to one estimate, 91.8 percent of urban areas have access to safe drinking water compared to only 31.6 percent of rural areas (quoted in Catterson, Hasbun, and Dreikorn. 2004). One network of village water associations reported that 20 percent of the water sources on which rural areas depend have disappeared over the past ten years.

Over 30 percent of the country's population is concentrated in 3 percent of the land mass and its residents are demanding a greater share of water resources from other areas of the country. Competition for this scarce resource could increase if adjacent jurisdictions do not reach agreements about protecting and sharing water resources. Key to ensuring that competition does not become conflictual in the future is proactive leadership. To date, donors (including USAID) have devoted more time and money to addressing these problems than the government of El Salvador itself (PER-PNUD, 2003: 193).

CRIME

El Salvador has experienced one of the highest crime rates in the world over the past decade, fueled by several war-related legacies as well as economic, demographic, and other factors (Call, 2003). Crime, in turn, exacerbates economic and social problems and reduces political legitimacy. Since 1993, crime rates as the number one concern of 30 to 55 percent of the population (IUDOP polls cited in Call, 2003: 84).

Important progress has been made in the fight against crime. The National Civilian Police (PNC) indicates a 33 percent reduction in reported crime over the past three years (data supplied by ICITAP). Significant reductions were seen in kidnappings (80 percent) as well as truck-hijackings (80 percent). Experts attribute progress to the continued institutional consolidation of the PNC as well as to enhancements in the Public Prosecutor's Office. Most importantly, recent opinion polls indicate that the PNC and the presidency are the two most highly rated institutions in society (IUDOP, 2004). The ICITAP director suggests that citizen respect stems from the use of investigative techniques, community policing, and a 911 emergency response system.

Yet, progress has not been universal. Over the past three years, homicides fell a modest 7 percent while rapes increased (PNC, 2004: 3). Criminal justice professionals indicate that bringing down levels of crime require social programs aimed at preventing at-risk youth from joining gangs or otherwise engaging in crime. Law enforcement efforts are currently focused on gang-related violence, which ICITAP believes accounts for approximately 80 percent of all petty crime and for a significant number of homicides. Virtually none of our interviewees endorsed the "hard-line" anti-crime strategy that President Flores enacted six months ago. ICITAP expressed concern about the government's "guilt by association" approach. Though this campaign has temporarily reduced the profile of gangs in urban areas, it has been rejected by the courts and has a marginal impact on crime in rural areas.

Far less attention is paid to other forms of "social violence" between neighbors or within the home – targeted primarily at women as well as at children – which, according to a Department of Sonsonate Prosecutor, accounted for at least half of homicides in his jurisdiction. Officials from the Public Defenders Office (PGR) and the national network of Mediation Centers also confirmed this was a significant problem and, as in the case of gang-related violence, called for improved education, counseling and other preventive efforts to address these problems. Some interviewees link high levels of social violence to family disintegration spurred by the civil war, unemployment, and migration. Others

argue that a culture of violence reflects more deeply rooted cultural factors, such as *machismo*, that pre-date the war.

Interviewees suggest that organized crime would likely become a problem of increasing importance in the future. Like all Central American countries, El Salvador acts as a transit country for drugs into the U.S. but, unlike Guatemala and Mexico, it is not a major point for operations. These patterns can shift very quickly, however, and some high-level Salvadoran officials have been found to be involved. A legislative deputy used his office to run interference with local law enforcement officials for a trucking company smuggling drugs through El Salvador. Interviewees also indicate possible links between organized crime, gangs, and migration. As drug use increases, some expressed concern that gangs could offer a ready-made distribution network for drugs and other types of organized crime. Others mentioned several cases of Salvadorans trying to finance migration by carrying drugs into the U.S.

A DEA official expressed concern that El Salvador could become a regional center for money laundering given its dollarized economy, its growing and weakly regulated financial sector, and increased anti-money laundering efforts in nearby Panama. The IMF commended El Salvador for “exemplary” efforts to combat money laundering but also called for continued efforts to strengthen the supervision of cross-border lending and of financial conglomerates (IMF, 2003).

IV. INSTITUTIONAL CAPACITY AND RESPONSE: LACK OF CONFIDENCE IN THE POLITICAL SYSTEM AND GOVERNMENT INSTITUTIONS

While the 1992 Peace Accords are remarkable because they have not unraveled, the post-war political settlement is the only time when Salvadorans have struggled to forge the formal and informal institutions necessary to run a modern, democratic society based on the rule of law. Prior to the 1980s and 1990s, authoritarian governments ruled the country. Twelve years is simply not enough time to build a democracy and a state comparable in quality (though not necessarily in style) to, say the one that Costa Ricans have been redesigning and retooling since the late nineteenth century (e.g., Lehoucq and Molina, 2002). It is not surprising, therefore, that Salvadorans are dissatisfied to some degree with their government. Nevertheless, the level of dissatisfaction and the reasons for it are serious enough to increase the vulnerability of the country to potential conflict.

Background – El Salvador has a separation of powers system, one with an independently elected executive and legislature. The Legislative Assembly selects the magistrates of the Supreme Court, the highest court of the judiciary. The constitution grants suffrage rights to all citizens 18 years old or older. Physical presence in the country is necessary to vote, thus, in practice, excluding most of the almost two million Salvadorans living abroad. To vote, they would need to travel to El Salvador and have in their possession a new identity document (DUI), issued for the first time in 2003.

Since 1985, Salvadorans have been turning out every five years to elect a president. Every three years, they have the opportunity to reelect members of the 84-member Legislative Assembly and to fill local government slots of 262 municipalities. Throughout the 1980s, violence marred electoral campaigns. After the signing of the 1992 peace accords, the FMLN has actively participated in elections.

Dissatisfaction with the Political System – Analysts can point to two sorts of evidence to buttress the claim that Salvadorans are dissatisfied with their democracy. First, voter turnout rates are low.

Since 1994, never more than half of the eligible voters (all adults at least 18 years old) bother to cast ballots. Second, the value Salvadorans place on democracy appears fragile. The *Latinobarómetro* surveys indicate that respondents who claim that democracy is preferable to any other kind of government fell from a high of 56 percent in 1996 to a low of 25 percent in 2001 before rebounding to 40 and 45 percent in 2001 and 2003, respectively (Economist, 2003b).

At first glance, these results are surprising because Salvadorans have good reasons to be more enthusiastic about their political system. First, current political arrangements have eliminated the rampant human rights abuses of the past. Gone are the days when military officers and soldiers patrolled and dealt with guerrillas and other regime opponents. Elections also are competitive and fair, even if complaints exist about the voting process.

Second, voters have real choices. There is a left and a right in Salvadoran politics. Voters can also vote for several other parties floating around the center – especially on the center-right – of the political spectrum (e.g., IUDOP-UCA polls indicate that the electorate classifies the PDC and the PCN as center-right parties [Artiga-González, 2003b:231]). Since the 1992 peace accords, citizens can cast ballots for the FMLN which, among other things, is promising a national health care plan, more social spending, and reinstatement of the *colon* as the sole currency. Alternatively, they can vote for ARENA, a party unabashedly in favor of the market and a law-and-order approach to crime. Both parties also seem to be shifting toward the center. The FMLN is not in favor of nationalizing the means of production, though it talks about rethinking the ARENA-sponsored privatization of state companies. For its part, ARENA is in favor of social and educational programs of interest to many voters.

Low voter turnout rates have to be interpreted with caution. Only about half of eligible Americans vote in US elections and only, on average, a third go to the polls in midterm elections. Turnout rates have hovered between 51 percent of the voting age population in the 1994 general elections to a low of 34.4 in the 1997 legislative elections before inching up to 37.9 percent of eligible voters in 2001 (PER-PNUD, 2003: 257). Moreover, while not high, support for democracy in El Salvador is not the lowest in Latin America. Support for democracy places El Salvador somewhere near the top of the bottom half of the 17 Latin American countries for which such data exists.

Yet, both relatively low turnout rates and low democracy support scores are telling us something. When combined with other polling evidence about the issues of concern to El Salvadorans, survey data suggests that large number of Salvadorans believe that the political system is doing little for them.

One issue that remains of major concern is crime. From being a non-issue in February 1991, it quickly shot up to be the most pressing concern of nearly 40 percent of survey respondents in February 1993. Since 1993, it has been rated as the number one issue of between 30 and 55 percent of the population (IUDOP polls cited in Call, 2003: 84). Indeed, a 1999 poll suggests that more than half of those surveyed believe that stopping crime would justify ending democracy (Call, 2003: 828).

Salvadorans worry about becoming victims of homicides, kidnappings (for the better off), thefts, and assaults. Low-income urban areas, in particular, are subject to gang (“*mara*”) violence. Gangs involve unemployed young men, a number of whom learned their skills on the streets of Los Angeles and other U.S. cities before being arrested and deported back to El Salvador. Urban gangs also absorbed some ex-military and guerrilla fighters that the peace accords demobilized in 1992-93. In the 2003 IUDOP poll, 20.8 percent of those surveyed mentioned gangs as the most troubling problem the country faces (with another 24.4 listing delinquency as the key concern).

Anywhere from 60 to 95 percent of survey respondents therefore complain about problems that their government has not resolved. Crime and the lack of jobs – and all of the consequences of economic underdevelopment – are hard problems to solve. Moreover, the government has succeeded in establishing

a police force that the population seems to trust, a key if insufficient solution to the crime problem. Nevertheless, the polling data do suggest that the inability to make headway on the problems of concern to most people is fueling lack of interest in – if not alienation from – politics and government.

Strengths and Limits of the System of Representation – The electoral formulae for choosing the president and deputies is inclusive, a point that bears emphasizing given talk about reforming the electoral system. In broad terms, the Salvadoran legislature reflects the partisan preferences of the electorate. Most voters seem to identify with the center and the right side of the political spectrum (Artiga-González, 2003b: 231), which helps to explain why centrist ARENA candidates win the presidency and ARENA and the PCN, parties of the right and center-right, respectively, obtain (increasingly bare) majorities in the Legislative Assembly. A runoff system for choosing the president encourages candidates to search for centrist voters. The proportional representation system for selecting deputies gives parties legislative seats in proportion to their share of the valid vote.

Nevertheless, the system of representation suffers from several limitations that undermine its transparency and credibility. First, the Electoral Code makes no provision for campaign finance disclosures. One ARENA legislator points out that the Ministry of Finance (which houses the tax collection agency) could provide disclosure because campaign contributions are tax deductible. Yet, the Finance Ministry discloses none of this information, perhaps because it does not want to reveal the names of taxpayers that obtain such tax credits or because, as we point out below, tax evasion rates are high (or both). At any rate, lack of information about campaign finance promotes hearsay and rumor about campaign contributions.

Second, parties have only recently begun to consult with the public about their presidential and legislative candidates. Until the 2002, the ARENA national leadership known as the National Executive Council (COENA) selected its candidates behind closed doors (Artiga-González, 2003a). So did the FMLN (Zamora, 2003). As elections have become more competitive, party activists play gradually more important roles in selecting ARENA and FMLN candidates. Both parties consulted held caucuses to select their 2003 presidential candidates and used alternative nomination procedures to select municipal candidates in 2002. The fact that ballots for legislative office only mention partisan labels and do not contain the names of party nominees, however, helps maintain the distance between elected officials and citizens.

Third, electoral formula and apportionment increase the effective number of parties and thus the ability of third parties to extract benefits from either of the two larger, parties. The use of the Hare quota instead of the D'Hondt method for converting votes into seats helps smaller parties at the expense of larger parties. Though both are ways of operationalizing proportional representation, the apportionment of legislative seats and the Hare system (e.g., dividing the total number of votes cast by the number of seats in each district to produce a quotient that parties must satisfy to obtain legislative seats) makes it easier for parties with smaller number of votes to win seats on the sly. According to the Electoral Code, the party with the largest number of residual votes (e.g., each party's total number of votes short of a quotient) gets any seat for which no party has a quotient, seats commonly known as "left-over" seats. That seven of El Salvador's fourteen districts (each of whose boundaries are identical to its provinces), have less than five seats also decreases the proportionality of legislative results and increases the probability that parties with residual votes can win leftover seats. Parties like the PCN need fewer votes to win seats in low magnitude districts, a result that means that they are over-represented in the Legislative Assembly relative to their share of the national vote.

Using the D'Hondt instead of the Hare quota system, John Carey (2003) shows, would have given both ARENA and the FMLN more legislative seats than they actually obtained. With 32 percent of the valid vote, ARENA would have obtained 38.1 percent of the seats instead of the 32 percent with the Hare quota in the 2003 legislative elections. Similarly, with 34 percent of the valid vote, the FMLN would have

received 41.7 percent of the seats instead of the 37 percent of the seats it got under the Hare quota. The PCN, however, would have seen its 13 percent of the valid vote get 15.5 with the D'Hondt system instead of the 19 percent it got with the existing Hare quota.

The overrepresentation of the PCN in the Legislative Assembly promotes pork-barrel politics and crass vote trades that, according to many of our interviewees, undermines the credibility of the Assembly. Reportedly, the PCN increases its share of deputies by transporting voters from one department to another so that they can obtain the largest number of residual votes and thus grab the left-over legislative seats. PCN deputies also seem to specialize in providing personal services and small projects (money to repair local buildings and water facilities) to the party faithful who work to mobilize their relatives and neighbors on election day. PCN deputies appear to get pork projects written into law in exchange for supporting one of the larger, programmatic parties. Until the 2003 legislative elections, the PCN extracted such benefits from ARENA because ARENA had the largest share of legislative seats and controlled the presidency. Yet, the vote trade with ARENA broke down after the 2003 election when the PCN got the FMLN to select one of its members as president of the Assembly, ostensibly because the PCN demanded too high of a price from ARENA to keep the legislative directorate in the hands of the right.

Additionally, legislative parties have not always been as transparent as they could be. The Assembly has been unwilling to make committee deliberations and even floor debates readily available to the public. As of the date of this report, minutes are only kept of committee reports (*dictámenes*) and not of committee deliberations, even though tape recordings are kept of committee debates. This turns out to be rather important because, as a long-time observer of the Assembly points out, the legislature as a whole approves approximately 90 percent of committee reports that make it to the floor (and 60 percent of the bills that get sent to the Assembly end up becoming laws). Though minutes are kept of floor deliberations, these are also not readily made available to the public. Inspection of the Assembly's web site (<http://www.asamblea.gob.sv/>) reveals that basic information on laws is incomplete, much less contain background information (date when bill was submitted, bill sponsor, policy impact documents, etc.) useful for citizens to track bills as they work their way through the legislature.

Mid-level public officials and opinion-makers also criticize the Legislative Assembly for politicizing appointments to the courts. Not surprisingly, these interviewees also point out that legislative deliberations about who gets named to the high court and on the Court of Accounts are shrouded in secrecy.

These factors do not seem to help the Legislative Assembly obtain the respect it merits as the chief lawmaking branch of government. Survey research regularly notes that the Legislative Assembly competes with businessmen (and frequently with judges) as the least respected institutions in El Salvador (IUDP, 2004). True, as several interviews with deputies point out, the fact that legislative deliberations (both in committee and on the floor) are open to the press does make it a target for easy criticism, especially since the media and the public may not entirely understand the role a legislature plays in a separation of powers system. Moreover, legislatures tend to fare worse than executives in presidential systems with the public because partisan debate among the deputies typically comes across as pointless squabbling, something that Salvadoran presidents no doubt exploit for partisan advantage. Nevertheless, valid issues exist.

Ineffective Horizontal Accountability – Interviewees pointed out that elected officials are doing little to strengthen the institutions of horizontal accountability, those that police the branches and agencies of government on behalf of the people. Over the past 15 years, the ARENA party has built a relatively competent executive accompanied by relatively weak or highly politicized oversight institutions, including the judiciary, Court of Accounts and Legislative Assembly.

The 1983 constitution establishes three bodies to enforce the rule of law. The first is the Public Ministry, which in turn is divided into three parts. The Attorney General's Office (*Fiscalía General de la República*, FGR) is the agency that accuses and thus organizes the state's pursuit of the allegedly guilty. The Public Defender's Office (*Procuraduría General de la República*, PGR) provides for the defense of indigents. The Human Rights Ombudsman's Office (*Procuraduría para la Defensa de los Derechos Humanos*, PDDH) investigates violations of individual rights and guarantees. The second body is the judiciary. The third is the Court of Accounts, El Salvador's version of a comptroller general.

Public Ministry – Of these three institutions, the Public Ministry came up for the least criticism. None of the interviewees attacks any part of the Public Ministry for widespread corruption and abuse. Most criticisms of the Public Ministry are about inefficiency. More than one interviewee points out that the three component agencies of the Public Ministry do not coordinate their actions with that of the judiciary with the result that time and limited resources are lost. Furthermore, there has been a steep learning curve on the 1998 Criminal Code, which transformed the country's antiquated inquisitorial system of justice into one that combines elements of inquisitorial and adversarial forms of justice.

Judiciary – Although the judicial system has also undergone major changes since the signing of the Peace Accords, much of it with USAID support, we nevertheless heard lots of criticisms of the judiciary and especially of the Supreme Court. A fair number of our interviewees attacked judges for being inept, corrupt, and for interpretative improvisation. Complaints that judges trade favorable rulings for money are also common charges. Finally, lack of legal conventions to guide so many aspects of the law in a country with no rule of law tradition empowers judges (and other legal professionals) to venture into uncharted waters. For example, there are no rules of evidence in Salvadoran law, that is, no procedures for obtaining and handling evidence that can be used in legal proceedings. In the shift to a new criminal justice system, one that asks judges to arbitrate between prosecutors and defense lawyers, the absence of such procedures leads to the impression that judges are improvising the law. Indeed, where judges reach different conclusions about which evidence is admissible and under what conditions, it generates the impression, rightly or wrongly, that judges can be bought.

Despite major reforms reducing the Supreme Court's reach, some interviewees still believe that the Supreme Court holds too much power. In addition to being the final court of appeals and the body entrusted with constitutional adjudication, the Supreme Court also picks lower court judges, based on the nominations by the National Council for the Judiciary, and disciplines them.

Some of these attacks, to be sure, are politically motivated, as several legal professionals point out. To the extent that judges issue rulings that executives, legislators, or citizens do not like, they come under attack. That some judges have declared the "hardline (*mano dura*)" law enacted in 2003 as unconstitutional, for example, because it allows the police to pick up young men and women sporting tattoos – an apparently reliable indicator of gang membership – is a decision that civil libertarians in many societies would applaud. Nevertheless, the lack of systematic procedures for so many types of cases – and the fact that few court rulings are made public – generate doubts about the judiciary.

Court of Accounts – Interviewees uniformly criticize the Court of Accounts for failing to audit appropriately government expenditures. Many also use the word "corrupt" to describe the court. Interviewees argue that the court has failed to carry out its responsibilities efficaciously and transparently.

Audits of some ministries and municipal governments have, on occasion, taken more than 5 years to accomplish. The court rarely disseminates its reports, though reports do seem to circulate among deputies and other public officials. Several members of the team, for example, saw a court audit critical of a regional hospital in the hands of an opposition FMLN deputy. Interestingly, court staff told us that publication of reports would be unconstitutional, a statement we later found to be incorrect. A 1995 measure passed by the Legislative Assembly, but not enforced, mandated that the court should make all

audits public. New language in 2002 indicating that audits could become public only 2-5 years after their completion has not yet led to the availability of the court's audits.

Moreover, court staff told us that an independent auditing firm has never audited their own records and behavior. In the absence of external audits or of access to the Court's own audits, it is impossible to reach any firm conclusions about the Court of Accounts technical competence or integrity. Nevertheless, a budget transparency index of ten Latin American countries indicates that El Salvador ranks last in the indicator of "external audit control capacity" thus reaching conclusions consistent with the results of our interviews. Only 8 percent of expert respondents expressed confidence in the Court of Accounts (International Budget Office, 2003: 26).

Controversial Nomination Procedures – The constitution empowers the Legislative Assembly to name the magistrates or heads of the Public Ministry, the Supreme Court, and the Court of Accounts. Several interviewees took an institutionalist line of attack about the lack of effective horizontal accountability, claiming that current procedures allow the Assembly to politicize such appointments.

Many interviewees, for example, criticize the way the Legislative Assembly picks Supreme Court magistrates, who are appointed in three-year cycles that coincide with the assembly's own electoral cycle and serve for 9-year, renewable terms. Even though the CNJ is constitutionally mandated (art. 186) to furnish the assembly with a set of nominees ("half of which come from the entities of the lawyers of El Salvador and where the most representative currents of juridical thought should be present"), interviewees claimed that the Assembly logrolls when making the appointments. Qualifications and performance do not count, they suggest, as much as partisan connections. The expectation of certain types of rulings in sensitive cases apparently does matter when the Legislative Assembly selects the members of the high court.

The constitutional requirement that nominees must have the support of two-thirds of all deputies serves to encourage the assembly to divide positions on the high court among key parties. It does not help the cause of impartiality that the assembly selects a third of the magistrates every three years, the regularity of which encourages deputies to logroll. That the legislature does not hold public hearings or otherwise make its deliberations known on these appointments also generates the impression that the legislature is undermining the ability of the judiciary to hold the two other elected branches of government accountable for their behavior.

Perhaps no better account of the politicization of horizontal accountability exists than that surrounding the Court of Accounts, one that we are able to piece together from different sources. Formally, the Assembly names the president and two magistrates to the Court of Accounts for renewable, 3-year terms. Several interviewees point out that an informal agreement between ARENA and the PCN leaves the Court of Accounts in the control of the PCN. In exchange for helping to elect PCN people to the Court, ARENA obtains PCN support for other bills it wants in the Assembly. For ARENA, an added advantage for turning over control of the Court to the PCN might be that no one will audit its officials for, say, trading insider information about tax enforcement or currency reserves. According to several interviewees, ARENA passes along this information to influential businessmen as a quid pro quo for large campaign donations. Moreover, such an arrangement lets ARENA off of the hook, so to say, because it can claim that it is not in "control" of the Court.

For its part, the PCN gets to control the Court of Accounts, an institution with mid- and lower-level job employment for its followers. More importantly, domination of the court permits its officials to deliver pork barrel projects to narrow constituencies in the certainty that no one will be empowered to ask meddlesome questions about procurement and expenditure policies. One mayor also argued that the Court of Accounts exploits even the smallest of infractions of finance law (e.g., slightly underestimating costs on a local project so that the Court could claim the mayor had gone "over-budget") to threaten mayors

with legal proceedings unless they promised to deliver votes for the PCN in the next elections. If true, such practices amount to extortion for audited institutions with good financial management and impunity for those with poor financial management.

Interviewees concluded that the Legislative Assembly has not held the Court of Accounts accountable for its actions or inactions, as the case may be.

Executive-Legislative Relations – Interviews with political observers indicate that the executive and legislative branches of government are increasingly at odds with each other. Though disagreement between both branches of government is not uncommon in separation of powers systems, refusal to cooperate is new in El Salvador and leads to conflicts that local observers of the policy process dislike. We can point to two types of evidence about the growing disharmony of executive-legislative relations in the country.

First, former president Flores issued more than 40 vetoes, many more than his predecessors combined (PNUD-ES, 2003: 274-6). Second, the executive and legislature have failed to reach agreement on a budget for 2004 (in the absence of a new budget, the previous year's budgetary allocations remain in effect). While president Flores did not react directly to the assembly's decision to change his budget priorities – by, for example, increasing funds for the University of El Salvador and for programming eight percent as opposed to the current six percent of the national budget for local governments – his threat to veto the assembly's revised budget and the assembly's refusal to follow executive branch priorities led to stalemate. The president claimed that the assembly could not increase expenditures without creating new revenues; the assembly argued that it was simply reallocating expenditures, not increasing them. As of the time of the completion of the research for this CVA, the two branches of government had not come to an agreement about the budget.

Conflict between the branches of government is likely to continue. As ARENA has lost its control of the Legislative Assembly, but retained control of the presidency, disagreement was inevitable. Divided government in separation of powers systems tends to lead to more vetoes and impasses. As the issues facing the government become more complex, divided government will likely be compounded. Until the executive and legislature create a new equilibrium, grandstanding before public opinion may lead to less – not more – cooperation between the two elected branches of government.

V. FUTURE SCENARIOS

The above analysis details the root causes of potential conflict in El Salvador – both greed and grievances. We now analyze the three most likely scenarios in which those causes could generate conflict. Finally, we look at access to resources, institutional capacity to manage conflict, and other factors that make the likelihood of conflict under these scenarios in the short- to medium-term either more or less likely.

The Urban Scenario – We refer to this as an urban scenario because its protagonists are the popular sectors and middle class groups located in urban areas.

In this scenario, these urban groups react to the deteriorating economic situation discussed earlier. The root causes of conflict include anemic job growth and unemployment and underemployment, especially for young people. To the extent that slow economic growth keeps families poor or struggling to survive, criminal violence could continue to proliferate, especially if parents marginalize young people or are simply not available to raise their offspring. The continuation or even acceleration of crime could further

alienate urban workers, professionals, and laborers. That these groups live in a relatively small number of urban areas – San Salvador being by far the most prominent of them – helps facilitate communication among members of these groups. Geographic proximity also allows them to overcome the disincentives to collective action that the absence of tight-knit social groups and different class interests create.

Trends and events – or windows of vulnerability – that could trigger conflict include large-scale job loss in the textile sector and tax hikes and/or expenditure cuts associated with resolving the fiscal deficit. The possible decimation of a large number of *maquila* jobs could worsen the economic situation for many families. Increases in income taxes or better enforcement of tax laws could worsen household incomes, already stretched to the margin in so many cases. The failure to improve educational opportunities and to keep health care available to urban dwellers could lead to more and more protests like the 2003 health care strike.

In the period following the 2004 presidential election, these windows of vulnerability could trigger conflict if the political system does not encourage parties and key economic groups to reach the consensus necessary to share the benefits and costs of solving, for example, the fiscal deficit. Tony Saca will have a brief window of opportunity to reach out and forge such a consensus. If he does nothing, the triggers mentioned in the previous paragraph could destabilize the government.

The Elite Scenario – We call this an elite scenario because the groups that own so much of the economy play the key role in this situation. A sudden and unexpected increase in the political fortunes of the FMLN would set this scenario in motion. An FMLN victory in the 2004 presidential election could have been such an event. That did not happen, but could happen in future elections.

Of all of the scenarios under discussion, fear plays a key role in starting a negative elite reaction to FMLN political progress. Political analysts, journalists, and other observers repeatedly told us that the right would exaggerate the consequences of an FMLN victory and help bring about a self-fulfilling prophecy. It is very likely that the right would launch a media campaign against an FMLN government that would serve to polarize politics and to trigger a similar hard line response from a left-wing government. Elite would also send their capital abroad; economic recession and a worsening of the fiscal deficit would likely occur. In response, hard line members within the FMLN could organize marches and strikes against the right and ARENA. It is not inconceivable that political assassinations would reappear. Politics could get quite nasty if the economy went into reverse under such a scenario.

Given the ARENA victory in the recent presidential elections, this scenario has been displaced to the future, and does not represent a short-term threat.

The Rural Scenario – We refer to this as a rural scenario because its protagonists are rural folk, the same ones who played such a pivotal role in the civil war. Though we do not expect this scenario to happen, it is worth discussing because life in the countryside appears to be even grimmer than in the city.

In this scenario, rural unemployment turns into despair. Water scarcities and environmental degradation become worse and pit communities against each other. Strapped for funds or unaware of mounting rural unrest, the government does nothing to promote rural development, a concerted effort to improve educational, health, and economic opportunities in the countryside.

The rural scenario is unlikely to be set in motion because it is much easier for dissatisfied rural dwellers to leave the countryside than to get organized. And, indeed, rural Salvadorans have picked up and either left the country or gone to urban areas. Yet, if immigration no longer is an option or certain groups decide to organize a rural movement, rural despair can become rural unrest. If rural groups overcame the barriers to collective action, they could spearhead another rural insurgency, a development that could become a major social revolution in a society with a weak and illegitimate state.

VI. MOBILIZATION AND EXPANSION: ACCESS TO CONFLICT RESOURCES

Under any of the above scenarios, those who could provoke violence would need to access adequate resources, both human and capital, to support a conflict. The CVA now turns to identifying the resources that groups could access and mobilize in pursuit of their respective agendas.

Urban Sectors – Three different groups living in urban areas could potentially organize for collective action leading to conflict: first, the substantial number of Salvadorans who hawk goods in the informal sector; second, the relatively small number of factory workers (the working class); and third, the middle class professionals, who live by selling their human capital, many of whom are state-employed school teachers.

There is little information about the political leanings of the informal sector. Members of the popular sector may develop informal relationships, most of which, however, will probably be localized to the area where they sell their goods. That most informal sector workers labor long hours and for little pay also works against developing norms of reciprocity necessary to engage in collective action independently. The team believes, however, that members of this group might join movements led by workers or middle-class professionals if the grievance also affected their interests. A good case in point is the November 2003 health care workers strike, which middle-class physicians successfully turned into a movement protesting privatization of state-run health care services.

Although demonstrations and strikes have occurred on various occasions, there is general agreement that, overall, the labor movement has been severely weakened in recent years, particularly by the most recent administration. However, there is a perception that CAFTA has helped the trade union movement by bringing attention to labor as part of the negotiations. Thus, the Deputy Political Counselor at the U.S. Embassy conjectured that the labor movement may now be growing. Nevertheless, it seems unlikely that urban workers are in a position at this point to mobilize conflict-related human resources.

Although the physician-led 2003 health care strike managed to attract the support and sympathy of many urban constituencies (and involved a degree of low-level violence), the ability of members of the middle-class to engage in collective action generally is also limited because professionals do so many different things.

It appears unlikely, therefore, that the urban sector, either independently or collectively, would have the ability to mobilize the human resources needed to support widespread violent conflict.

Access to financial resources would also pose a problem. None of the urban groups itself has the financial resources needed to support an extensive conflict. During the civil war, many of the financial resources came from abroad. With the end of the cold war, however, and the dismantling of the FMLN's fund-raising network, similar resources are unlikely to be easily generated today.

Elite Interests – Despite a bloody civil war – which, in large part, pitted members of one class against another – a small number of Salvadorans still control much of the wealth of their society. Control over wealth creates the networks necessary to sustain collective action. Carlos Rodolfo Paniagua-Serrano (2002) points out that a small number of families are the principal owners of the country's banks, large retail establishments, and manufacturing and service industries (e.g., TACA airlines). These families sit on each other's board of directors and otherwise help each other do business. They also wield power within ARENA, where interviewees told us they bankroll electoral campaigns. As ARENA candidates

have won every presidential election since 1994, elites have privileged access to the heights of state power. Elites also own the country's newspaper and television outlets.

Elites, therefore, both have the resources and can quickly mobilize to protect their interests. They can, for example, paralyze the economy by closing factories, shops, and banks. They can send their capital abroad and thus reduce already low levels of domestic investment and increase the costs of business and personal loans. Elites also can orchestrate media attacks against governments they dislike. Because they control the levers of economic power and are few in number, elites therefore exercise a great deal of latitude in deciding who does or does not represent a threat to their interests.

There is one critical resource, however, that the elites appear to be lacking: the foot soldiers. The army is the only logical source of significant human resources that the elites could potentially mobilize. The interviews provided no evidence that the army would back a conflict provoked by conservative elites. Absent the backing of the army, the possibility of an elite-led conflict is severely undermined.

Rural Sectors – Rural people played a fundamental role in the civil war of the 1980s (Wood, 2003). Organized in the separate groups that formed the FMLN in 1980, rural people were an important part of the rank and file and leadership of the guerrillas seeking to overthrow the government. The question is whether rural people could reactivate these old networks if provoked to violent conflict.

There are three clear three sorts of relationships that could lend themselves to igniting collective action. First, many rural people belong to cooperatives, many of which continue to function in the countryside. Meeting regularly, cooperative members develop bonds of trust that can be deployed to vent rural grievances. Second, several interviews indicated that the decline of export agriculture has left many rural people with lots of free time on their hands. To the extent that they communicate while sitting on their stoops, the rural unemployed could form organizations and establish common agendas. Finally, as many rural people fought on the same side during the civil war (either as guerrillas or members of paramilitary organizations), they can draw upon common experiences and interests to organize movements to promote collective interests.

However, unlike the contras in neighboring Nicaragua or other Third World insurgencies, no one from the FMLN has taken up arms out of disappointment with the 1992 Peace Accords. The settlement went out of its way to provide land and support for guerrillas wishing to return to practicing agriculture, either as individual, small-scale farmers or as members of agrarian reform cooperatives. Though poverty and unemployment rates are higher in rural than in urban areas, the countryside has remained politically quiet since the signing of the 1992 Peace Accords. The FMLN's dramatically increased share of the municipal vote and of town councils helps to keep those who are dissatisfied engaged in the political arena. The FMLN leadership, in particular, has little reason to turn from politics to violent conflict.

At-risk Youth/Gangs – Although our interviews did not reveal that gangs are politically active, they are such a prominent part of public discourse that we discuss the sociology of gangs. Moreover, because gang members form such tight bonds with each other, they could quickly mobilize for collective action and potentially provide human resources needed for conflict under either the urban or rural scenarios.

Estimates indicate that some 10,000 youth are hard-core gang or, in local parlance, *mara* members, with another 30,000-35,000 affiliates (Santacruz Giral and Concha-Eastman, 2001). The proliferation of gangs in El Salvador is yet another sign of the existence of "idle" youth, an age cohort (Goldstone, 2003) that can become a part of a violent movement – if, of course, other conditions are met. Goldstone (2003) states that there are several key features of the youth cohort, ones that explain why and when idle youth can become part of a widespread, violent conflict. According to Goldstone,

One key feature of youth experience that can lead to mobilization for conflict with the elder generation in authority is a *distinctive cohort experience*, usually based on major social change or upheaval, such that youth in that cohort lose faith that following the path or advice of their elders will lead to outcomes that fulfill their individual and group aspirations. A sense that their elders have let them down in shaping society leads youth to a search for different values and lifestyles, and also to efforts to mobilize for change, to take the future back into their own hands.

Goldstone points out that youth mobilization to violent rebellion tends to occur when “shielding” institutions, such as family, schools or job-training programs, churches, sports, and clubs are absent, breaking down, or fail to address the needs of youth as they see them. They then seek to meet their needs to gain skills, rewards, and identity as part of a broader and more cohesive group through organizing or joining alternative organizations, such as gangs, criminal organizations, or even armed rebel groups. These alternative organizations provide a sense of empowerment, shared identity, and access to material and sexual rewards. Some of the main drivers of such breakdown are urbanization, factionalism, and unemployment – all of which characterize the case of El Salvador.

There is a dual problem of idle youth in rural areas (many of whom join gangs) and gang-led violence in urban schools. In rural areas, 60 percent of youth between 15 and 18 are not in school. Overall, only 30 percent of the poorest children finish sixth grade. Only 5 percent of age-appropriate youth in rural areas are in secondary school.

Smut and Miranda (1998) document four family-related factors that facilitate the incorporation of youth in gangs. First, this study finds that 82.9 percent of families with gang members live in poverty. Second, Smut and Miranda (1998) point out that the mother was the single head of household in 72.7 percent of homes with gang members. Third, these researchers find that the quantity and quality of time that parents or guardians spend with their children is low. Parents tend to work more than nine hours per day, are unaware of what their children are doing in their free time, and little or no communication between them. Fourth, Smut and Miranda (1998) state that 8 out of every 10 youths were victims of or witnesses to violence at home. Added to this are social factors related to exclusion from the education and labor systems, in addition to the social stigma of belonging to a gang and having tattoos on their bodies. Finally, they suggest that other factors related to gangs and the entrance of youth into them include rapid urbanization, armed conflict, privatization of public spaces, and the existence of a culture of violence.

There are two major types of gangs in El Salvador. On one hand, there are student gangs, whose members form part of the grade school and middle school population. Interviews suggest that no serious study exists of these gangs, even though the media has spoken about them. On the other hand, there are street gangs, made up of youth who identify with their group, usually linked to specific areas in urban neighborhoods. These gangs are generally made up of youth who live in the areas where they carry out most of their activities. These gangs are characterized by strong links of solidarity or *compañerismo* among members, rivalries with other gangs, the use of certain communication codes based on hand signals, and on the use of certain language. Members of these gangs accept specific norms, values and forms of communication and interaction.

Many interviewees mentioned a new governmental policy called “*mano dura*” (hard line), which authorizes police to arrest youth who appear to be gang members (by virtue of tattoos or other outward signs or anti-social behavior). This is said to be causing more gangs to shift from cities to rural areas, where homicides have increased. Many see this policy as unconstitutional, impractical and ineffective, since police can hold gang members for only 72 hours and must release them if the investigation is not completed by then. To date, the great majority of those detained under this policy have been released

within the 72-hour period. Several interviewees pointed out that this is, at best, a short-term approach, and that it would be difficult to achieve sustained impact over the longer term.

Potential Collaboration between Gangs and Organized Crime – While interviews with law-enforcement officials, both within the U.S. Embassy and in the Salvadoran government, indicate that no valid data exist on the amount of money involved in kidnappings, robberies, smuggling, money laundering and other forms of delinquency and organized crime, the cost of such activities is high. If gangs and organized crime decided to collaborate, they could create a headache because of their access to money and highly organized social networks.

There is some evidence of links already between organized crime and gangs in El Salvador. Gangs are a natural distribution network for the drug trade. Studies of Salvadoran gangs have also shown a strong influence in terms and style and behavior of similar gangs in the U.S., particularly those in Los Angeles, since a significant number of gang members have been among the 3000 to 3,400 Salvadorans deported every year from the U.S.

VII. WINDOWS OF VULNERABILITY

This section discusses three near-term windows of vulnerability: the end of the Multi-fiber Agreement, the fiscal deficit, and the fallout from the March 2004 presidential elections.

Multi-fiber Agreement Ends in December 2004 – The Multi-fiber Agreement (MFA) permits major importers like the U.S. and the EU to use discriminatory country-by-country quotas in combination with their import tariffs. Given the MFA quotas on countries like China, India, Pakistan, and Vietnam, countries that have preferential treatment like El Salvador were able to expand their apparel exports to the United States without the fear of competition, trade, and investment diversion.

With the end of the MFA later this year, El Salvadoran apparel exporters will face a different ball game. Though the process of quota elimination already started, most quotas will remain in place until the end of 2004. Notwithstanding the quotas, seventy percent of all growth in apparel imports into the U.S. in 2002 came from China and Vietnam, which face both quotas and tariffs in entering the United States.

According to some experts in foreign trade, the main impact of the removal of the Multi-Fiber quotas is likely to be a declining demand in the U.S. for CBI outward-processing apparel. In the words of Seth Bodner, a former U.S. textile-trade negotiator, “the handwriting is on the wall for what will happen to Caribbean Basin and African manufacturers when there is no quota system. Among the people who will be destroyed by this are the African and Caribbean people who have been building investments based on the special quotas (quoted in Busey, 2003).”

Once the MFA is gone on Jan. 1, 2005, competition will be primarily over costs – especially low wages – since tariffs have made little difference in recent years. There are several reasons why a country like China has competitive advantage in exporting apparel. China pays an average of \$1.75 a day and Chinese manufacturers produce high quality fabric cheaply. In El Salvador the minimum wage is a little more than 5 dollars a day, and exporters need to use U.S. fabric or locally produced fabric, which is more expensive than Chinese fabric.

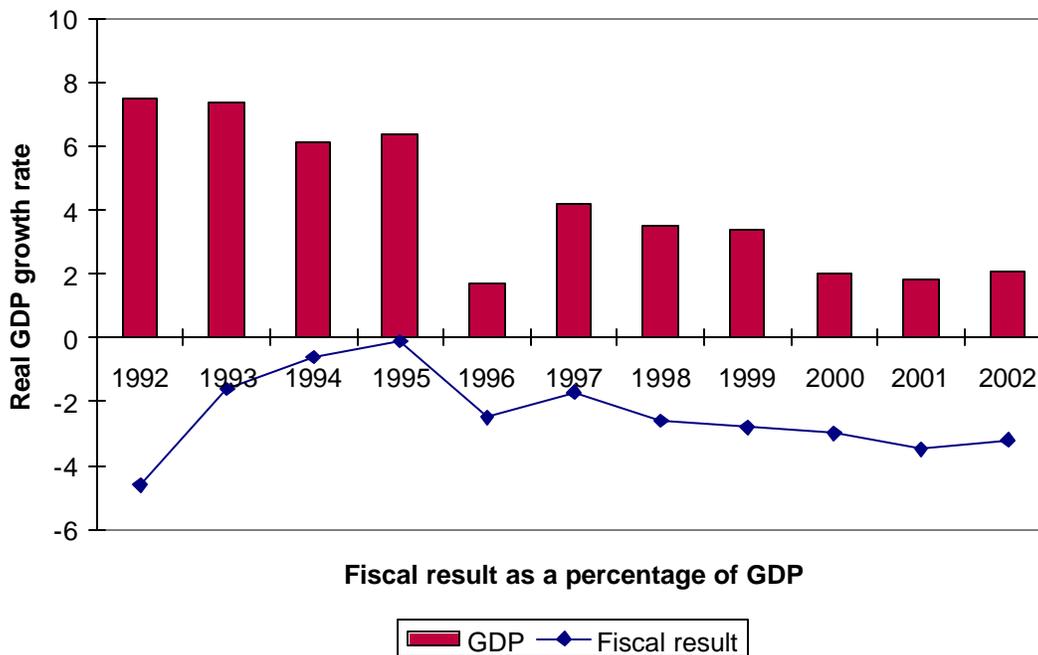
The medium term scenario for El Salvador’s *maquila* sector is not very promising. Thousands of jobs could be lost. Although the negative impact of the end of the MFA could be more than compensated by

the advantages derived from CAFTA, which will grant privileged trading conditions for the export of Salvadoran textiles, benefits from CAFTA will not be automatic. To a large extent, they will depend upon improvements in the investment climate. Without more domestic and foreign investment, the positive impact of CAFTA in economic growth, employment conditions, and reduction of poverty will be negligible. It is therefore important to reiterate that policymakers need to understand why a country such as El Salvador, with a stable macroeconomic framework, ranked as a “mostly free” economy, and very soon with a free trade agreement with the U.S., is not attractive to local and foreign investors.

Fiscal Deficits – If the government does nothing, the public sector will run out of money in the next 5 to 10 years. El Salvador ties with Guatemala and Mexico for one of the least taxed societies in the western hemisphere (though it was reported that tax collection increased 12 percent from 2002 to 2003). It only keeps up with its rather limited commitments because it is increasing the size of the public debt. Insufficient revenues and the importance of increasing spending on education and other areas to make the country more competitive make the looming budget deficit the mother of public policy issues in El Salvador.

Graph 5 shows that the fiscal deficit grew larger as a result of slow economic growth in the 1990s. Earthquake reconstruction expenditures also contributed to deficits accounting for 3.5 percent of GDP in 2001 and reached 3.2 percent in 2002. If we also include payments to finance pension reform, the deficit will increase by slightly more than one percentage point of GDP. To finance the deficit, public debt at the end of 2002 has reached almost 40 percent of GDP, not too far from the 60 percent of GDP tripwire that international lenders dislike.

GRAPH 3. REAL GDP GROWTH RATE AND FISCAL RESULT OF THE NON-FINANCIAL PUBLIC SECTOR



Source: Central Reserve Bank

Even to maintain macroeconomic stability – much less to increase social expenditures in health, education, and anti-poverty programs – the next government will need to raise taxes and/or cut expenditures because it is fast exhausting its ability to borrow money to finance its deficit. Keeping the books balanced

therefore requires actions, such as increasing excise taxes and strengthening tax enforcement and tax administration as well as reforming the pension system, such as establishing age 60 as the retirement age.⁴

Raising taxes is unpopular. Interviews suggest that measures to broaden the tax base and to improve tax administration have not been very successful. Table 9 indicates that tax collection averaged only around 10.4 percent of GDP between 1999 and 2002. Some interviewees also indicate that the state only collects 50 percent of potential VAT and income taxes. Many firms apparently doctor their books to appear unprofitable and thus avoid paying taxes. Yet other firms (e.g., TACA) avoid paying taxes because they are incorporated in Panama. Micro-enterprises or members of the informal sector also avoid paying taxes precisely by staying outside of the formal economy.

TABLE 9. TAX REVENUE AS A PERCENTAGE OF GDP

Tax revenue¹	1992-1995	1996-1998	1999	2000	2001	2002
Income tax	2.6	2.9	3.1	3.3	3.1	3.0
Value added 1/	4.6	5.3	5.4	5.4	5.9	5.4
Customs duties	2.0	1.5	1.2	1.1	1.1	1.0
Others	1.6	0.7	0.5	0.5	0.5	0.9
Total	10.8	10.4	10.2	10.2	10.6	10.3

¹ Income and value added tax has been adjusted for tax returns.

² Value added tax was introduced in September 1992, and in 1995 the rate was increased in 3 percentage points, to 13 percent.

Source: CRB

The effort to increase revenues is a political as well as an economic problem. For the government to extract revenue from society, it has to demonstrate that it is spending tax revenue wisely. Furthermore, the government must persuade citizens that everyone is paying the taxes he or she owes. Unless citizens can be assured that everyone is paying his fair share, they will have incentives to avoid paying taxes. A government that settles for collecting little revenue is one that has not convinced its citizens that it is able to spend their money wisely.

The March 2004 Presidential Elections and Their Aftermath – The most immediate window of vulnerability opened in March. As President Flores’s administration drew to a close, citizens chose ARENA’s Saca by a resounding margin over the FMLN’s Handal (57 vs. 37 percent of the valid vote with a 63 percent turnout rate). Though ARENA’s victory prevents the activation of the elite scenario, it does make the urban sectors scenario a possibility unless left and right decide to overcome the incentives to polarize that divided government creates.

Presidential elections are polarizing events in El Salvador. ARENA and the FMLN, interviews with journalists and political analysts reveal, play upon the electorate’s fears or, in the words of one opinion-maker, “recreate the phantoms of the past.” ARENA panders to a largely conservative electorate’s fears of communism, a tactic that takes on added importance – and credibility – given that Schafik Handal, the FMLN’s standard-bearer, is a life-long member of the Communist Party of El Salvador. For its part, the FMLN reminds the electorate that ARENA is the party of death squads and of the intransigent right. Economic stagnation, along with the increase in inequality, serves as evidence that things are not going well for many Salvadorans.

⁴ The pension systems allows people to retire with 30 years of service and many workers retire before 50.

It is hard to assess the accuracy or impact of these interpretations. ARENA's commercials about Tony Saca emphasized ARENA's achievements. They promised to deepen the law and order approach to fighting crime. They also pledged to increase employment opportunities for Salvadorans, an outcome that ARENA believes CAFTA will help to accomplish. For its part, the FMLN's television spots (unsuccessfully) revolved around reassuring the electorate that Handal is not an extremist. The left's campaign advertisements portrayed Handal as a respectable statesman, almost grandfather-like individual, that is in tune with the average Salvadoran, one that – we add – lives in a household with a total monthly income of \$400. Yet, each party may be using very subtle cues to remind the electorate that its rival is only a continuation of elite rule or, as the case may be, irresponsible radical politics.

Final results indicate that the presidential race was much narrower than pre-election polls suggested. During its 3-week visit to El Salvador, the team heard that the Technological University of El Salvador disseminated the results of a poll indicating that ARENA was only 4.72 percentage points (37.91 vs. 33.19) ahead of the FMLN, only 2.42 points beyond the statistical margin of error (<http://www.laprensagrafica.com/especiales/2004/elecciones/encuestas/encuestas.asp>). Our own reading of the October 2003 IUDOP poll about the March 2004 elections suggests that citizens may believe that neither ARENA nor the FMLN is offering them the solutions they want. Thirty-three percent of respondents agreed with the statement that “the majority of people prefer a change in the governing party” and another 21 percent concurred with the claim that “approximately half of the people support ARENA and another half oppose it (IUDOP, 2003).” Fifty-six percent claimed that the FMLN was not ready to govern the country. The FMLN's candidate, former guerrilla leader Schafik Handal, had the largest negatives. Forty-four percent of those surveyed would never vote for Handal, slightly less than twice the number who would never vote for ARENA's Saca. These results suggest that voters may want a change, but are not getting one.

In the end, ARENA managed not only to convince its voters to get to the polls, but also to persuade centrist – even left of center ones – that Saca was a better bet than Handal. Governing will require that Saca, as this report points out, reach out to the other side of the political spectrum to enact his program. Though the new president can probably fashion a coalition of ARENA and PCN deputies to change or enact laws, he cannot tackle the sources of potential conflict without opposition support. While an alliance between both parties will have enough seats (29 + 15 = 43 seats or 51 percent; see Table 1) to pass ordinary legislations, it will not have enough votes to amend the constitution or to borrow money from abroad, both of which require the support of 66 percent of the deputies. The two-thirds majority required for such measures means that addressing social and economic problems is contingent upon building the consensus to raise taxes. And, unless a major realignment occurs, the March 2006 legislative elections also will not furnish the president a legislative majority.

Though divided government does require the president and the Assembly to compromise to turn bills into laws, it also encourages each branch of government to dig in its heels to improve, at the very least, its bargaining position. A polarized party system like El Salvador's also can reward a party for staying true to its principles, a fact that does not bode well for political moderation. Nevertheless, if electoral majorities demand the same policies from government – e.g., less crime and more jobs – the president and the Assembly may converge on policy priorities. If the electorate holds a consensus around fundamental issues, the executive and the legislature may decide to cooperate because the disagreement will alienate voters. Issues and public opinion therefore can moderate the centrifugal dynamics inherent in a polarized, multi-party presidential system.

Handal's defeat will produce a great deal of soul-searching on the left. Since signing the 1992 Peace Accords, the FMLN has been locked in an internal struggle between hardliners and reformers (Zamora, 2003). How to divvy up party positions and elected posts, what policies to adopt, and whether the FMLN should be Marxist or become more social democratic in a world where centrally planned economics no

longer is viable are debates that Handal's resounding defeat reopens. Several interviewees suggest that losing by a large margin would further the cause of reformers because Handal and the hardliners would be hard pressed to claim that they hold solutions consonant with the wishes of the electorate. Whether hardliners or reformers gain the upper hand in the FMLN will not only determine whether Saca can succeed in building consensus in society (and assuming that ARENA wants to build bridges to the left), but also whether the FMLN can become a viable contender in future presidential elections.

VIII. CONCLUSIONS

Our team believes that widespread, violent conflict is unlikely to occur in the short- to medium-term (e.g., next 5 years). Although incentives of greed and grievance exist that could potentially lead to conflict, two major factors mitigate the immediate danger, and some of the key elements needed to support a widespread conflict are not in place at this time. Nevertheless, the sources of political instability are latent and could, without great difficulty, become manifest over the medium to long-term. Additionally, there are three fairly immediate windows of vulnerability that could provoke such instability and should be addressed.

The first of two reasons why the peace is likely to hold stems from the lack of interest left and right have in starting a violent conflict. No interviewee told us that he or she believes or had heard that either the right or the left is considering the use of violence to retain or to capture state power. Even a cursory look at electoral returns suggests why the major political forces are not contemplating taking up arms again: each benefits from current political arrangements. ARENA continues to be the party with the best shot at retaining the presidency, a fact that reassures its financial backers that their interests remain protected. The FMLN has grown as a political party since signing the Peace Accords. Its share of municipal councils and legislative seats has continued to increase. Its presidential candidates garner more and more interest, if at least for the reason that voters are ready to give someone else a shot at holding the presidency.

The second reason why widespread, violent conflict is unlikely to start over the next five years stems from the escape valve that illegal immigration to the U.S. provides. Though no one has access to good estimates, well-informed interviewees stated that some 150 people a day leave for the U.S., for a total of 52,800 people a year. Individuals that might otherwise contemplate joining an armed movement are busy working illegally in the U.S. or trying to get there. Moreover, remittances now are about \$2 billion a year (approximately 14 percent of GDP), income indispensable to fund the deficit on the current account and thus to maintain macro-economic stability. Remittances also likely turn Salvadoran families that get them into households more interested in political stability than in regime overthrow.

Nevertheless, our team does not recommend complacency. It would be a mistake to interpret our central finding – that widespread violence is unlikely to break out over the next five years – as a claim that El Salvador is no longer ripe for widespread, violent conflict. As several interviewees point out, two of the three root causes behind the civil war of the 1980s are still present. First, all too many Salvadorans remain in poverty. Though the share of the population that is poor has declined, low economic growth rates suggest that further reducing the ranks of the poor may become increasingly difficult. Moreover, most of the population that is no longer classified as poor has hardly joined the ranks of the middle class; again, low economic growth rates suggest that their standard of living has reached a plateau where scarcity and struggle are their most familiar companions.

Second, income and wealth remain highly concentrated. If 14 families no longer own El Salvador, as observers liked to claim (and regardless of whether it was as few as 14), a small number of households

nevertheless do exceedingly well. A small group of families obtain a significant share of the national income, as household surveys reveal. Though there is no survey of the distribution of wealth, several interviewees point out that wealth may have actually gotten more concentrated over the past two decades. Inequality breeds conflict because, on the one hand, it makes the elite fearful. Living amidst poverty and scarcity, especially when a political party exists reminding society that some live much better than most, makes the elite jumpy and very likely to misinterpret any change in political winds as a direct threat to their existence. On the other hand, inequality in the context of a no-growth society makes many in the majority resentful and willing to embrace counter-hegemonic political movements. Both parts of society may lose unless more Salvadorans can benefit from the current distribution of spoils.

Third, to the extent that the political system does not reform itself, the major achievements of the civil war may become politically irrelevant. The destruction of a repressive military regime and the creation of a respected police force are major accomplishments, ones that remind Salvadorans that a lot has changed in their society. That the left and the right can campaign freely and hold public office without being killed are also outcomes that shows how much has changed. Yet, a political system that is not addressing the need for jobs and the social causes of crime runs the risk of becoming politically meaningless. That surveys reveal that less than half of all polled express satisfaction with their democracy indicates that Salvadorans are disenchanted with the current state of affairs. Moreover, the polarization of the party system, one where the far left and far right hold close to two-thirds of the legislative seats and municipal councils, lays the groundwork for confrontation. Even raising revenue so that the state can address economic and social programs requires cooperation between ARENA and the FMLN. Divided government in the context of a separation of powers system encourages each side to play to its supporters, rather than to cooperate as needed.

IX. RECOMMENDATIONS

In keeping with the Statement of Work, and based on the foregoing conclusions, the CVA team offers the following recommendations for consideration by the mission as it develops its 2004-2008 Country Plan. We present these recommendations as suggestions to capitalize upon work and progress to date. They also promote new initiatives to mitigate the risks associated with potential conflict in the longer term, and to address immediate windows of vulnerability. They employ a two-tiered approach, working both from the bottom up and the top down.

1. **Promote multi-sectoral dialogue on key policy issues such as political reform, economic development strategies, and anti-poverty programs in order to: a) break down ideological barriers and the resulting polarization of the political system; b) build consensus and begin to provide realistic solutions to the root problems that provide incentives to conflict; and c) build more effective governance in which citizens can have confidence.**

DISCUSSION:

The economic, social, and political problems that face El Salvador ten years after the signing of the Peace Accords are extremely difficult to solve. They require the cooperation of all the main political and social actors. The political parties need to move away from the ideological stances that are impeding consensus

around viable solutions, increasing the fragility of the political system, and reducing the confidence of the public in their government. The center needs to be strengthened and the peace accords reactivated.

In order to do this, USAID and the U.S. Country Team could act as catalysts by promoting a process of dialogue. Precedent for this exists with regard to the Mission's key role in the process of dialogue and consensus-building around the successful education policy reforms of 1995. As noted in a report on that process (Córdova Macías, 1999), the education reform was the "result of a process of seeking consensus among different social and state actors between 1993 and 1995, a process which was sponsored by opportune international cooperation."

The format for the dialogue should ensure that there are as many different actors in the room as possible, for two reasons. First, it would provide the kind of transparency in government decision-making that the public finds lacking, and contributes to the lack of confidence in the political system. Second, it would help to prod members of the different political parties and government officials to talk to one another. It is particularly important to selectively include international figures and actors from other countries in the region. The first step in the process of dialogue around the education reforms was a diagnostic of the education sector carried out through a contract between the mission and the Harvard Institute for International Development (HIID), UCA and FEPADE. A report on the education reforms noted that, "the participation of a prestigious, external academic institution, such as HIID, was a determining factor which made it possible for it to play the role of motivator and facilitator, and by having promoted the utilization of a participatory methodology. This lent credibility to the process, as well as to the results achieved with interdisciplinary and intersectoral participation." USAID can ensure that the right internal and external actors participate.

The process should include a component directed at educating the parties on the issues and possible viable solutions so that they can engage equally and productively in the dialogue. The left, in particular, is weak on economic issues.

Three issues around which USAID could convene dialogues could be tax reform, economic development, and anti-poverty programs. Key to raising more revenue to address social inequalities and the social causes of crime is getting large firms, retailers (especially in the informal sector), and ordinary citizens to agree to pay taxes. Getting Salvadorans to cough up more tax money, in turn, requires initiating dialogue about transparent and efficient ways of collecting taxes and about the ends of public policy. Second, making El Salvador a more attractive place for foreign and domestic investment requires building consensus about how education, the rule of law, and physical infrastructure – to name just a few concrete areas – can be linked to fuel growth and job creation. Finally, USAID could convene a dialogue about integrating social and educational policy to raise the incomes of the poorest Salvadorans, those whose lives have been most adversely impacted.

Although this would be a low cost activity for USAID, it would require a sustained commitment. The problems are difficult, and the parties have entrenched views.

2.

Support networks of think tanks, universities, and NGOs to design and maintain mechanisms for ensuring transparency and access to information of interest to all concerned.

DISCUSSION:

Numerous interviewees told us that the Legislative Assembly and the Courts – for example – are opaque, reducing confidence in the political system and government. Increasing public access to the Legislative Assembly and the judiciary is not easy, and Salvadorans have to accomplish these objectives themselves. True, the press does provide information about legislative deliberations and Court rulings. Though both the assembly and the Supreme Court have web pages and published sources of information, both provide the information they deem appropriate and which requires background knowledge to interpret. Ideally, there should be an alternative clearinghouse of information so that citizens can follow debates about bills, committee deliberations, and floor votes.

USAID could complement its efforts to date to make these institutions more transparent by helping to jumpstart a social policy network that would monitor the behavior of legislators, judges and auditors. An independent source of information about bills, laws, and judicial rulings – one useful to citizens, NGOs, journalists, and academic researchers – could help fill knowledge gaps and provide an independent audit of legislative deliberations and judicial decision-making.

USAID might convene meetings of citizen groups, NGOs, universities, think-tanks, journalists, and public officials with an interest in reliable and up-to-date information about the Legislative Assembly. It might very well be the case that, for very different reasons, NGOs and researchers would like to be able to track the bills the president and deputies are discussing. Some might want to know about the options available to improve education, while others want to know where exactly are bills on this topic in the legislative process (e.g., in committee stage or on the floor). Others would like to know about all of the legislation the assembly passed in the previous year. Unfortunately, there is no clearinghouse for such information.

There are a number of different possible options for addressing this need for information. One is to match domestic and foreign experts with members of the network and partially (and temporarily) fund a web site for this information. The larger the number of actors with a stake in such a network, the more likely it is that USAID can call upon experts to help design an ultimately self-sustaining web site and set of publications (routed through a commercial publisher) about the legislative process.

However, the network should be responsible both for identifying the information it wants and devising a mechanism for addressing its needs. Sustainability, both financial and programmatic, will be important factors to consider in selecting the appropriate mechanism.

Similarly, USAID can help convene a network of citizen groups, researchers, teachers, and NGOs interested in acquire and disseminate information about the behavior of the courts. At the current time, only the Supreme Court makes rulings available on-line. Despite the centrality of interpretation in the law and about written briefs in the civil code system, no case books exist in El Salvador. Nor does there seem to exist a clearinghouse of important cases with background notes and other relevant information. Again, though precedent plays a different role in code law than in common law systems, the initial and pioneering rulings judges produce serve as reference points for future judges and legal professionals. Such materials can also help citizens and legislators stay informed about legal developments - information that is fundamental for the drafting of new and revised laws.

Again, USAID could explore facilitate the formation of a network of law professors, legal researchers, citizen groups, and NGOs to identify their needs for additional information related to the judiciary and to explore mechanisms for satisfying those needs. This could include online as well as print options. USAID should focus its efforts on setting up initial meetings between these groups, matching the needs of the network with foreign experts, and ensuring that the effort would become self-sustaining.

3. USAID should continue mission programs that support community development efforts.

DISCUSSION:

USAID has supported a variety of initiatives designed to achieve development at the local level all around the country. A number of these initiatives have involved the establishment of community-based mechanisms for identifying development needs and creating programs to address them. These programs give citizens a stake in their own governance and confidence that the government is committed and able to solve some of their immediate problems.

Chief among these mechanisms are Local Development Committees comprised of municipal officials and community groups in 26 municipalities nationwide. These Committees promote citizen participation through open town council meetings, participatory budgeting and other such activities. They have a variety of “*Mesas*” or sub-committees, which usually include groups dealing with citizen safety, conflict prevention and mitigation.

4. The mission should continue to support, and if possible expand, mediation centers and pioneering activities in community policing.

DISCUSSION:

Both of these activities help to address the “culture of violence” often ascribed to El Salvador, establish non-violent patterns for addressing conflicts, and increase involvement and confidence in government, again reducing the likelihood that citizens would be willing to join movements of widespread violence.

5. USAID should continue or expand support for other current programs in the agricultural, economic, environmental, and justice sectors that address the root causes of grievances and potential conflict.

DISCUSSION:

These programs include earthquake recovery, primary health care, watershed management, rural water supply, expanded rural financial services, environmentally sound agricultural export promotion, and basic education improvements for rural poor families, micro- and SME development and, on a pilot basis, crime prevention efforts (i.e., outreach to at-risk youth, rehabilitation of gang members). All of these programs are directed at mitigating the root causes of grievances identified in this study as potential incentives for conflict.

6.

USAID should take steps, in close collaboration with the Embassy, to mitigate the potential for conflict in response to specific triggers, including upcoming elections and the end of the Multi-fiber Agreement (MFA).

DISCUSSION:

The degree of political polarization in the country raises the stakes for all elections in El Salvador and particularly for presidential elections. USAID and the U.S. Embassy should prepare for all possible outcomes, not only the single most likely outcome. Confidence-building measures could include early, credible quick counts and clear U.S. public and private policy messages calling for respect for any outcome of a legitimate process. In many ways, El Salvador's democratic transition will not be fully tested until control of the Executive passes from one party to another. That passage represents an important challenge that lies ahead.

The end of MFA will bring all Central American textile and apparel industries under severe stress and is likely to trigger significant job loss in urban areas. In the past, violence has accompanied *maquiladora* closings primarily when companies failed to pay agreed severance packages. USAID should work with the trade unions and business community to ensure that agreed severance packages are respected, workers are retrained if opportunities exist, and other conflict mitigation steps are taken.

(Note: the other trigger identified, the fiscal deficit, is addressed in the first recommendation.)

ANNEX A

CONFLICT VULNERABILITY ASSESSMENT

EL SALVADORA

STATEMENT OF WORK

OBJECTIVE

The objective of this activity is to conduct a Conflict Vulnerability Assessment of El Salvador, to determine whether potential areas for conflict within the country exist, or whether there are variables which independently, or in conjunction with others, may lead to conflict if left unchecked. Additionally, this activity will result in recommendations regarding areas of focus in the development of El Salvador's 2004-2008 Country Plan to address any potential conflict areas or variables that are identified through the assessment process.

BACKGROUND

El Salvador has made significant progress in increasing political, economic and social stability since the signing of the Peace Accords in 1992, and despite the devastating effects of Hurricane Mitch and two earthquakes in 2001. In the last decade, there have been free and fair presidential and municipal elections, with high expectations that these will continue to be the norm. The average annual rate of economic growth has been 2% over the last two years, above many countries in the LAC region. Nonetheless, El Salvador still suffers from endemic poverty in rural areas, where more than 50% of the rural population lives below the poverty line, 27% are illiterate and the average education level is 3.3 years, and around 60% of people have no access to water piped into the home. A stagnant agricultural sector compounded by the crisis in coffee has only exacerbated the situation. Security issues in urban and rural areas and low citizen confidence in the justice system compound the poverty problem. Crime and violence are believed to have contributed to the depression of both domestic and foreign investment below levels needed to sustain high rates of economic growth and employment capable of keeping pace with population growth. Given the need to reconstruct after the earthquakes, the total debt burden has risen by 8 percentage points in the last two years to approximately 39% of GDP . . . Despite frustrations with polarization in the political system, the political reforms brought about by the Peace Accords are permanent and functioning, and democracy in El Salvador does not appear to be at risk.⁵

The above is a brief view of El Salvador, according to the Mission's latest annual report. Ten years have passed since the end of the conflict that divided the country, killed thousands of people, forced many to leave their homeland, and had a significant impact on the psyche of the population. On the positive side, the Salvadoran peace process is viewed as a success, and the major goals of the post-conflict era are deemed to have been accomplished. On the less positive side, not all issues that culminated into the civil war have been resolved. And, in the meantime, additional problems and pressures on the society have presented themselves. El Salvador is plagued with high rates of crime and violence, including juvenile violence. Gang related crimes are increasing in brutality, and organized crime is using this window of opportunity to its advantage. "Culture of violence" is a term now used frequently, and the government and its citizens are struggling to find tough but constitutional solutions for the problem.

⁵ USAID/El Salvador, Annual Report FY 2003, January 8, 2003, page 6.

On the political side, presidential elections will be held in March 2004, and, although most do not predict an FMLN victory (opposition party formed by former guerillas after the 1992 Peace Accords, and currently holding the largest number of seats in the Legislative Assembly) the party does enjoy strong support, partly due to the disenchantment of the population with the governing party. However, even if the ruling party remains in power for the next five years, they will face serious difficulties in implementing their programs, since the Legislative Assembly is controlled by the opposition.

On the economic side, the poverty rate, especially in the rural areas, remains high, as does the divide between the wealthy and the poor. The coffee crisis, resulting from a global overproduction and subsequent reduction in the price of coffee has led to the loss of jobs and the only source of income for many Salvadorans. The government is actively involved in negotiations towards a Central American Free Trade Agreement (CAFTA). However, demonstrations have already taken place against the Agreement, and not everyone is convinced that their economic well-being will be improved by free trade. Additionally, El Salvador is prone to natural disasters, such as earthquakes and hurricanes, which significantly hinder or slow down economic progress, given the high toll in lives and resources.

PURPOSE

The purpose of this assessment is to assist the USAID/El Salvador Mission to clearly understand the possible sources of social, criminal, political and economic conflict during the medium term (through FY 2008) and provide programmatic recommendations that could assist in mitigating these risks.

METHODOLOGY

The assessment will be conducted in two phases: 1) desk study; and 2) in-country assessment.

The team members will begin by a study of the country's recent history, causes that led to the civil war, analysis of pending issues that may serve as potential risk factors for conflict, and a general social and political analysis of the country and the identification of potential conflict factors. Using both qualitative and quantitative data sources, the desk study will provide a general overview of the current situation, and will help identify areas that merit closer attention once the team begins its field work. The desk study will also help the team target its areas of focus and to select interview subjects in a more systematic manner.

In this context, the team should also familiarize itself with the Mission's current strategy and the Agency's new Regional Strategy for Central American and Mexico for the period FY 2003 – FY 2008. USAID/El Salvador will be developing its new country plan within the framework of this Regional Strategy, which outlines the general parameters for the Mission's new program designs and implementation. The team should keep these parameters in mind throughout the assessment process, but in particular when making recommendations or suggestions regarding possible conflict mitigation approaches.

The in-country assessment will serve to validate and to expand upon the results of the desk study through interviews, field visits, and other methods the team deems relevant or necessary. The consultants will be expected to not limit themselves to the usual USAID and Embassy contacts and counterparts, and to propose other individuals and institutions that can provide various thoughts and perspectives on the questions. The assessment shall focus on collecting data at both the national and the local levels to allow USAID to direct its resources geographically if necessary, and to target its investment in areas more vulnerable to conflict.

Finally, the team should be familiar with USAID’s conflict assessment analytical framework developed by the Office of Conflict Management and Mitigation. This analytical framework should be the team’s basic reference in carrying out this assessment.

PERSONNEL

Team Leader. A social scientist with significant experience in research and analysis of countries in conflict. Experience in Latin America preferred. Fluency in Spanish required.

Local Consultant. Salvadoran social scientist, public sector management specialist, or researcher/academic with strong knowledge of local history, politics, culture and social organization.

The team leader and the local consultant will work with USAID/El Salvador staff listed below depending on the specific topics of interview/analysis:

Democracy and Governance Office. Sepideh Keyvanshad and Mauricio Herrera

Economic Growth and Education Office. Mario Martinez

Health Office. Raul Toledo

ILLUSTRATIVE TIMELINE

Early November	Desk study
Late November	Present desk study results to the Mission
Late November/Early December	In-country field work
December	Embassy debriefing
December	Submit draft report
Early January	USAID provides feedback
Mid/Late January	Final report due

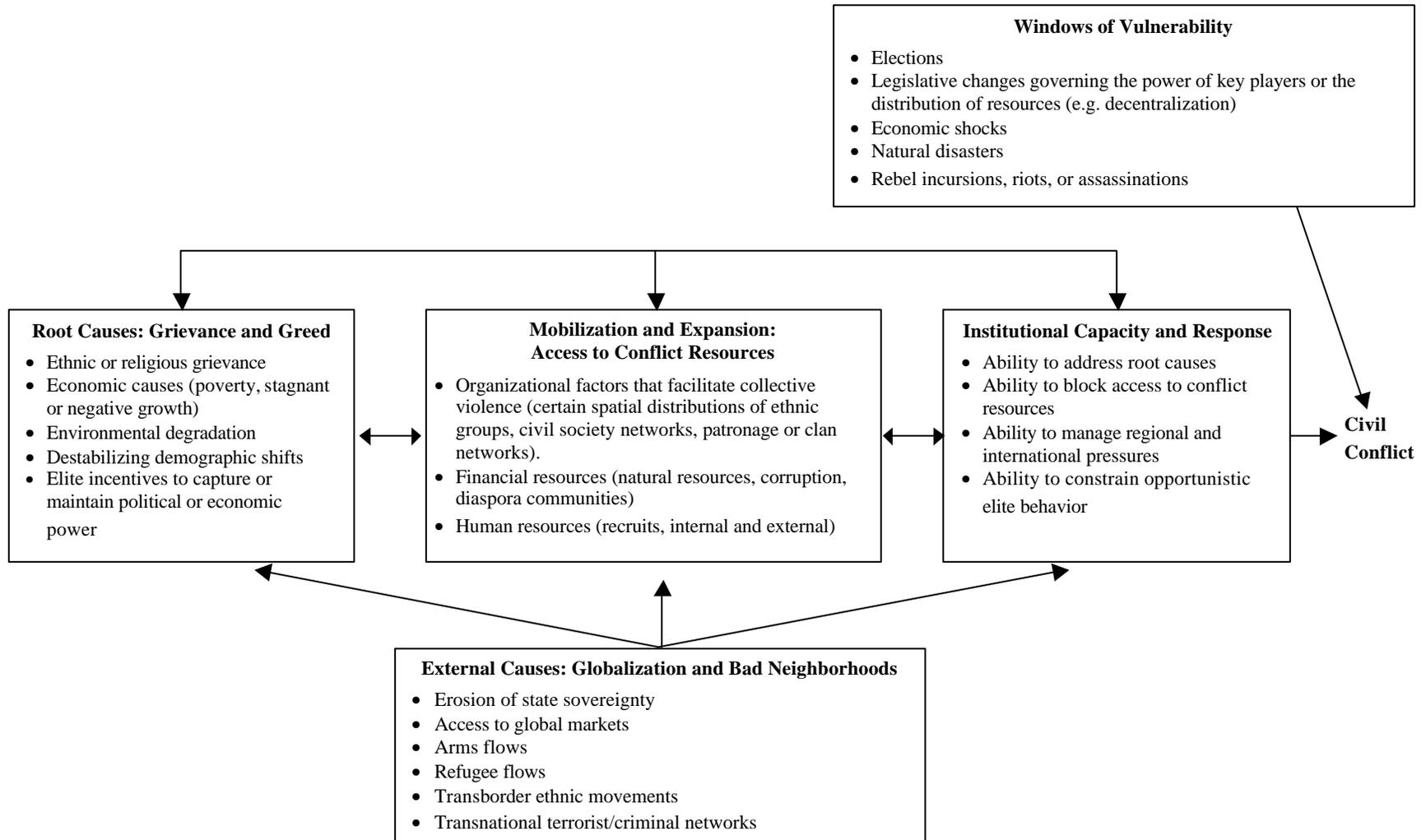
DELIVERABLES

The deliverables under this contract are (1) the Desk Study Results and (2) the Final Report. USAID/El Salvador and the assessment team will jointly agree to the structure of the Final Report once the team has a better understanding of the potential conflict areas and issues. However, in general the Final Report should include an executive summary, not to exceed five pages, an introduction, a background section, a discussion on the analysis and identification of risks, and recommendations and conclusions.

Both reports should be presented in both hard copy and electronically. The contractor should provide the Mission with at least 15 originals of the final report.

ANNEX B

CAUSES OF CONFLICT: OVERVIEW



ANNEX C

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ANNEX D

PERSONS CONTACTED

USAID/Washington

Mark Caratto, El Salvador Desk Officer

USAID/El Salvador

Mark Silverman, Director

Tully R. Cornick, Deputy Director

Todd M. Sorenson, Director, Democracy & Governance Office

Sepideh Keyvanshad, Deputy Director, Democracy & Governance Office

Mauricio Herrera, Project Manager, Citizen Participation & Governance

Ana Luz Joya de Mena, Municipal Development, Democracy & Governance Office

Brad Carr, Chief, Water and Environment

Eva Patricia Rodríguez Bellegarrigue, Project Manager, Rule of Law

Kristin Rosenkrans Mendoza, Education Team Leader

Mario Antonio Martínez, Mission Economist, Office of Economic Growth

Raúl Toledo, Chief, Health Unit

William Patterson, Water/Environment Office

Jorge Abballarade, Manager, Earthquake Program; Eduardo A. Rodriguez, Housing Activity Manager; Juan Carlos Ibbott, Schools Activity Manager

U.S. Embassy, El Salvador

Louis A. Cobarruviaz, Director, ICITAP

James W. Herman, General Counsel

Robert Brennan, Vice Counsel/NIV Chief

Annie Pforzheimer, Political Counselor

James W. Rose, Drug Enforcement Administration, Country Attaché

Edward Sotomayor, Attaché, Department of Homeland Security

Gregory B. Stevens, Department of Justice Attaché

Philip Thompson, Deputy Political Counselor

Jessica Webster, Economic Counselor

Salvadoran Government – Ministerio Público

Immer Ayala, Técnico, Unidad de Planificación, Procuraduría General de la República

David Morales, Procurador Adjunto de los Derechos Civiles e Individuales

Salvadoran Government – Corte de Cuentas

Juan Gilberto Rodríguez Larín, Asesor Jurídico

Salvadoran Government – Órgano Ejecutivo

Ing. Yuri Romano, Director de Planificación, Ministerio de Gobernación

Marco Antonio Grande Rivera, Asesor de la Presidencia

Oscar Chávez, comisionado, Secretario General, PNC

Salvadoran Government – Órgano Judicial

Salvador Menéndez Leal, Secretario Ejecutivo, Consejo Nacional de la Judicatura
Miguel Angel Cardoza Ayala, Magistrado, Corte Suprema de Justicia
Edward Sidney Blanco Reyes, Juez del Juzgado, Quinto de Instrucción de San Salvador

Salvadoran Government – Tribunal Supremo Electoral

Selim Alabi, Magistrado
Roberto Viera, Magistrado

Salvadoran Government – Asamblea Legislativa

René Napoleón Aguiluz Carranza, PDC
Jorge Escobar, FMLN
Gerson Martínez, FMLN
José Antonio Sonsonate Almendáriz R., PCN
Carlos Reyes, ARENA
Gerardo Suvillaga, ARENA
Jorge Villacorta, CDU

Business Sector

Jorge Arriaza Meléndez, Director Ejecutivo, ASI
Enzo Bettaglio, Executive Director, AmCham
Jorge Mariano Pinto, Presidente, AMPES; Director, ANEP

Non-Governmental Organizations

ANDAR; Julio Menjívar Chacón, Presidente
Consortio de ONGs de Educación Cívica – focus group: Jorge E. Urbina, Coordinador Ejecutivo; Fausto Palles, Director de IEJES; Luis Felipe Alam y Alam, Director Ejecutivo, Instituto Salvadoreño de Estudios Democráticos (ISED); José Ramón Villalta, Director Ejecutivo, Iniciativa Social para la Democracia (ISD)
CREA Citizen Participation & Governance Project; David Holiday, Director Democracia y Desarrollo, Consultores; Alexander Segovia, Executive Director FLACSO; Katharine Andrade-Eekhoff, Investigadora; Carlos Briones, Director Ejec. FUNDAUngo; Ricardo Córdova, Executive Director FUNDE; Roberto Rubio
FUSADES; Alvaro Ernesto Guatemala, Executive Dir.; Roberto Vidales, Legal Analyst

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José Miguel Cruz Alas, IUDOP-UCA
Benjamín Cuellar, IDHUCA
Walter Raudales, Universidad Francisco Gavería

Media

José Luis Sanz, Editor de Entregas Especiales, La Prensa Gráfica
Oscar Alas, Director, Asociación de Periodistas de El Salvador

International Organizations

William Pleitez, Coordinador General, Informe sobre Desarrollo Humano, PNUD
Beat Rohr, Representante Residente del PNUD en El Salvador

Field Trip – Municipality of Acajutla, Sonsonate

Alcalde de Acajutla

Focus Group: Comité de Desarrollo Local de Acajutla: empresa privada, RTI & Alcaldía

José Román Navarro Quintanilla, Jefe de Fiscalía General de la Republica, Sonsonate:

Cándida Parada de Acevedo, Coordinadora Nacional de Mediación

Glenda Arely Chávez de Serpas, Asistente Administrativa de Mediación

María Elba Castañeda, Procuradora Auxiliar de Sonsonate

Carmen Elena de Castro, Coordinadora Local de Mediación, Sonsonate

Wilfredo Orellana, Coordinador Local del Area Penal, FG, Sonsonate

Field Trip – Municipality of San Martín

Valentín Castro Sánchez, Alcalde de San Martín y Presidente del ISDEM

Lily Parada, Representante del Consejo de Seguridad Pública

Gina Orlich, Representante de RTI

Miembro del Consejo Municipal de San Martín

Roundtable Discussion with a dozen members of neighborhoods in San Martín

ANNEX E

SCENARIOS	ROOT FACTORS	CONFLICT MOBILIZATION RESOURCES	INSTITUTIONAL RESPONSES	WINDOWS OF VULNERABILITY
<p><u>1. Elite Scenario</u></p> <p>An important and unexpected FMLN electoral victory leads large firms to send their capital abroad (thus further reducing economic growth). Media giants launch campaign against the FMLN.</p>	<p>Elite incentives to maintain political and economic power.</p>	<p>Business elites control major media outlets.</p> <p>Business elites control bulk of financial resources and banking sector.</p> <p>ARENA party has strong organizational and human resources.</p>	<p>FMLN gains control of the executive or other institutions ARENA previously controlled.</p> <p>Continued divided control of the legislature leads to confrontation and even deadlock between the executive and legislature.</p> <p>Weak institutions of horizontal accountability (Judiciary, Court of Accounts) fail to constrain opportunistic elites.</p>	<p>Presidential elections (March 2004), legislative elections (2006).</p>
<p><u>2. Urban scenario</u></p> <p>A fiscal crisis within 2-4 years exacerbates economic stagnation and political polarization.</p>	<p>Poor and middle class grievances in urban areas intensify:</p> <p>Continued anemic growth, youth bulge and unemployment, rising cost of public and financial services, widespread gang violence.</p>	<p>Public employee unions, professional and SME associations, universities, and NGOs possess moderate organizational and human resources.</p>	<p>Diaspora remittances assist vulnerable family members.</p> <p>Divided government augments political polarization. As a result, the political system does not address root causes of economic insecurity. Law and order begins to deteriorate. Rising public sector deficit inhibits the government's ability to ameliorate economic</p>	<p>2005 Large job loss in textile sector w/ end MultiFiber Agreement</p> <p>+</p> <p>2005-06 fiscal crisis looming</p> <p>+</p> <p>2006 legislative elections</p>

SCENARIOS	ROOT FACTORS	CONFLICT MOBILIZATION RESOURCES	INSTITUTIONAL RESPONSES	WINDOWS OF VULNERABILITY
	violence.		ability to ameliorate economic and physical insecurity.	
<p><u>3. Rural Scenario</u></p> <p>Grievances facing the rural poor are chronic and severe. Continued disregard and increasing desperation may set the stage for rural conflict, sparked by natural disaster.</p>	<p>20 percent of rural population lives in absolute poverty.</p> <p>Very limited access to safe drinking water and other public services.</p> <p>High unemployment.</p> <p>Moribund agriculture sector.</p>	<p>Remittances represent only sources of conflict mobilization resources, but they are modest at the household level and not channeled collectively.</p> <p>Fall of coffee prices undermines financial resources of key agricultural businesses.</p> <p>Rural sector no longer majority (40 percent) in post-war El Salvador.</p>	<p>Remittances to 25 percent of rural households highly responsive and strong mitigating factor.</p> <p>Very limited institutional response to fall in coffee prices, deteriorating agriculture sector, etc.</p>	<p>Earthquake concentrated in rural areas and inadequate state response.</p>