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The Administration of President Mauricio Funes: A One-Year Assessment

By Cynthia J. Arnson, Adam Drolet, H.E. Hugo Martínez, Rep. Jim McGovern, Cristina Eguizábal, Ricardo Córdova Macías, Federico Hernández, José Miguel Cruz, William Pleitéz, and Luis Membreño

Introduction

Cynthia J. Arnson and Adam Drolet

In 1992, the government of El Salvador and the guerrillas of the Farabundo Martí National Liberation Front (FMLN) signed a historic peace accord ending a brutal twelve-year internal armed conflict. Seventeen years later, in March 2009, journalist Mauricio Funes was elected president of El Salvador as the candidate of the FMLN. The victory of Funes over the governing ARENA party represented the first time that the FMLN had reached outside its ranks for a more centrist candidate with broad national appeal. The election ended twenty consecutive years of rule by the conservative ARENA party; and the peaceful transfer of power from ARENA to the FMLN, the political party of the former guerrillas, marked a watershed in Salvadoran history.

President Funes took office at a time of unprecedented economic and security challenges for the country. Already hard-hit by the global rise in food and energy prices throughout 2008, El Salvador's economy was devastated as a result of the U.S. financial meltdown later that year. As William Pleitéz of the United Nations Development Program (UNDP) indicates below, El Salvador was second only to Mexico as the nation hardest hit by the global economic downturn (Figures from the International Monetary Fund indicate that the economy contracted by 3.5 percent in 2009). According to the UNDP, the country lost approximately 30,000 formal sector jobs and, for the first time

in twenty years, remittances from Salvadorans living abroad, which constitute almost a fifth of the country's Gross Domestic Product, also declined. The economic effects of the global crisis were magnified by natural disasters such as Hurricane Ida (late 2009) and Tropical Storm Agatha (early 2010) which inflicted sizable economic losses and loss of life.

The Salvadoran economy is tightly integrated with that of the United States, both through the Central American Free Trade Agreement and through El Salvador's adoption of the dollar as its currency. The United States purchases 48 percent of El Salvador's exports and provides 34 percent of its imports.¹ This integration has magnified the impact of economic dislocations in the United States. According to the United States Trade Representative, Salvadoran exports to the United States dropped 18.2 percent in 2009 and imports from the United States also decreased by 18 percent.² That said, bilateral trade between the two countries has vastly expanded since the signing of CAFTA-DR; trade rebounded in 2010, even if it was still below pre-crisis levels.

Despite the grim economic news from 2009, data from the International Monetary Fund (IMF) point to a modest recovery in 2010. Unemployment fell by 26 percent between 2009 and 2010, and GDP growth reversed its negative trend, but was calculated at a meager 0.957 percent in 2010. Remittances increased



2.5 percent between January and July 2010, and both imports and exports grew by 17 and 14 respectively during this same time period.³

National perceptions of the Salvadoran government's economic performance vastly improved between 2008 and 2010. According to the AmericasBarometer of the Latin American Public Opinion Project (LAPOP), positive assessments of the Funes administration's handling of the economy increased, from an average of 36.5 under the previous government in 2008 to 52.9 in 2010.⁴ Satisfaction with democracy among Salvadorans showed a similar jump following Funes' election, from 44.5 in 2008 to 54.7 in 2010. Yet as William Pleitéz and Luis Membreño indicate below, the impediments to El Salvador's future economic growth are both structural and political, and overcoming them requires achieving broader consensus on the specific policy mix to achieve both growth and greater equity.

El Salvador's economic problems are compounded by and intertwined with staggering levels of crime, violence, and citizen insecurity. The costs of crime to business are higher in El Salvador than in any other Latin American country and among the highest in the world, according to a survey of World Bank data compiled by *Latin Business Chronicle*.⁵ A 2009 study by the United Nations Development Program demonstrated that homicide rates in the "northern tier" of Central America—El Salvador,

Guatemala, and Honduras—are higher than any other region of the world except for countries at war.⁶ Sixty-eight percent of homicide victims are between the ages of fifteen and thirty-four, and nine out of ten victims are male, one of the highest rates of homicides of young men in the world. Over the last decade, murders of women have also soared 197 percent. Policies to fight crime known as *mano dura* (iron fist) have caused serious overcrowding in Salvadoran prisons, which by the end of 2009 were at 424 percent of capacity.⁷

A 2010 *Latinobarómetro* poll revealed that 71 percent of respondents in El Salvador reported being victim to an assault or a crime in the past year, more than double the average of Latin America. The study also revealed 43 percent of Salvadoran respondents claimed violence as the principal problem facing their lives today, the third highest reported rate in the region.⁸ El Salvador was slated to receive a portion of the \$260 million appropriated for the Central American Regional Security Initiative (CARSI) between Fiscal Year 2008 to Fiscal Year 2010, aimed at drug interdiction, anti-gang, and police and judicial reform programs;⁹ as of this writing in March 2011, the Obama administration's request for an additional \$100 million in Fiscal Year 2011 was in limbo due to the ongoing budget stalemate between the administration and the U.S. Congress.

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According to U.S. Ambassador to El Salvador Mari Carmen Aponte, the United States and El Salvador recently cooperated on improving security through the creation of a national wiretapping center to help counter the operations of drug trafficking cartels and local gangs.¹⁰ In the months after Funes' election but before his inauguration, the Salvadoran government renewed the lease granting U.S. access to the Comalapa airbase for counter-drug surveillance in Central America; El Salvador is also home to the International Law Enforcement Academy (ILEA) which provides training to police and judicial officials from Latin America and around the world. Nonetheless, as José Miguel Cruz explains below, persistent corruption within the judicial system in El Salvador and high rates of impunity continue to hinder progress in reducing rates of violence.

Drug trafficking organizations and other forms of organized crime are on the rise, establishing relationships with other criminal groups, including transnational gangs.¹¹

El Salvador's future continues to be clouded by security and economic challenges. Under the stewardship of a centrist President, the country has been able to rebound economically, pursuing greater international engagement through new diplomatic relationships while maintaining a strong relationship with its greatest trade partner, the United States.

Keynote speaker Salvadoran Minister of Foreign Relations **H.E. Hugo Martínez** provided a synopsis of the Funes administration's achievements since taking office in June 2009. The presidential election campaign had raised public concerns regarding a potential break in diplomatic ties between the United States and El Salvador in the case of a Funes victory. Martínez said that the specter of Venezuelan President Hugo Chávez played an important role in the campaign, abetted by a constant media barrage suggesting that Funes would lead El Salvador along the same path as Chávez. In this polarized environment and following his election victory in March 2009, President-Elect Funes called for national unity, claiming to be no longer the leader of a political party, but rather the leader of an entire nation.

Upon taking office President Funes faced dire economic, security, and social conditions. Between January and June 2009, an estimated 40,000 jobs were lost nationwide. Levels of exports, remittances, and international aid dropped dramatically in the wake of the global financial crisis. Hurricane Ida and Tropical Storm Agatha unleashed widespread flooding and

mudslides across the country, causing President Funes to declare a nation-wide state of emergency. Organized crime and narcotrafficking groups were increasingly active, bent on exercising influence and control. In the face of pressure and calls for swift and visible action to address the country's multiple problems, Funes insisted that political and social change does not happen overnight, and broad initiatives take time to materialize and build support. Martínez emphasized the Funes administration's cautious and reassuring approach as the best path to steady and gradual progress.

President Funes vowed to focus the government's attention on addressing social issues. Consistent with his call for unity, one of the administration's first actions was the creation of an economic and social council tasked with analyzing proposed policies from various viewpoints. The council includes leaders from the private sector, labor, and civil society, as well as representatives from government institutions. According to Martínez, the Funes administration in its first year successfully implemented educational programs which provide free school supplies, uniforms, and shoes to children attending public schools. A poverty reduction program called *Red Solidaria* was expanded, with a major focus on local participation and activism for community development. Addressing income shortfalls for at-risk youth, a program has been initiated providing the opportunity to gain experience at a minimum wage working part-time in a mayor's office while pursuing concurrent academic or vocational study. Martínez argued that El Salvador's longstanding issues of impunity have facilitated the operation of criminal networks, often with the direct participation of state officials. In its first 12 months in office the government removed 237 police officials for their participation in drug trafficking and organized crime groups, money laundering, and related cover-ups. Another 1000 officers were being investigated for similar activities, including the chief of police accused of having direct ties with the *Los Perrones*, an organized crime group operating in the eastern part of the country. In order to address state involvement and curb rising youth recruitment to criminal organizations, the Funes administration was implementing a two-faceted approach. First, proactive measures are being taken to capture and prosecute leading members of organized crime and narcotrafficking groups. Alternatively, the state is implementing programs which provide vulnerable youth with viable and licit livelihoods. By creating employment opportunities, easing access to educa-



tion, and addressing health shortfalls for the general populations, government officials believe these alternatives will prove more lucrative than employment within a criminal network.

Martínez said that the Funes administration's foreign policy marks an important shift for the country. Previously based on ideology, El Salvador now seeks to structure transnational relationships in a manner which foment and shares ideals of peace, democracy, and state autonomy and produces a benefit for the population. President Funes did not join the Alianza Bolivariana para los Pueblos de Nuestra América (ALBA); he did, however, pursue associations with economic and energy blocs, including the Venezuelan-backed Caribbean oil alliance, Petrocaribe. Martínez singled out Brazil and the United States as two countries with which the Funes administration would seek to strengthen its relationship. Apart from these important bilateral relationships, President Funes is also pushing for a stronger and more cohesive Central American bloc. Such unity will provide the region with greater influence and political weight in an increasingly interconnected, globalized world. El Salvador is seeking to establish economic ties with emerging markets in Brazil, Russia, India, and Australia. Contrary to the myths and fear-mongering created by election rhetoric, the Funes administration has strengthened relations with the United States. The two countries have engaged in various high level visits, and President Funes was the first Latin American president to visit the White House following President Obama's inauguration. The two nations have signed an accord permitting law enforcement agents to access a shared criminal record database, in order to jointly combat criminal and drug trafficking organizations. Regarding China, Martínez indicated that President Funes has vowed to continue cooperation with Taiwan on projects in El Salvador, while entertaining the idea of pursuing a future diplomatic relationship with Beijing.

Under Funes El Salvador's relations with other Latin American countries have also prospered. El Salvador is pursuing economic agreements with Southern Cone nations and Colombia. The country recently signed an agreement with the European Union, guaranteeing future economic and political cooperation, as well as assistance by European officials towards the construction of a regional security plan. Martínez described this plan as an extension, figuratively and geographically, of Plan Colombia in Colombia and Plan Mérida in Mexico. Efforts will be geared at countering the escalating violence and drug trafficking organized crime syndicated operating throughout Central America.

Regarding Cuba, Martínez said that the Funes government has pushed ideology aside and reestablished formal ties with Havana. Martínez argued these acts show President Funes' drive to forge new transnational ties, relationships which are based on an increasing international respect for the Central American nation.

Finally, the Funes administration is taking steps to improve both coordination of international aid inflows and national policies addressing human rights in El Salvador. Funes created the position of vice minister of development, a post tasked with repairing the fractionalized, non-transparent nature of international funds allocated to the country. By increasing efficiency and transparency and by advocating for greater multinational cooperation on projects, this office is better able to coordinate potential donors with Salvadoran needs. Results in the first year have been impressive. Roughly \$300 million in non-refundable funds has been allocated to 600 developmental projects throughout the country, effectively doubling figures from previous years. Financial support has come from not only bilateral assistance, but also from the large Salvadoran diaspora in the United States. According to Martínez, these funds have been aimed at creating employment opportunities and supporting social services in order to ebb high rates of migration.

Regarding human rights issues, Martínez emphasized that Funes has broken with past administrations, officially recognizing the authority of international human rights bodies and vowing to follow their recommendations and rulings. His administration has initiated dialogue with family members, provided reparations, and taken steps to restore dignity to the individuals and families victimized during the 12 year conflict. Martínez emphasized these actions show El Salvador's new commitment to improving its record and approach to human rights, as well as its efforts to face and reconcile past injustices.

According to Representative **Jim McGovern** (D-Massachusetts), "when the historic Peace Accords ending El Salvador's twelve years of civil war were signed in Mexico at the beginning of 1992, many of us anticipated a new and prosperous era for that country. During the war, I lost many friends – El Salvador lost so many of its best minds and hearts – to the violence and conflict of the civil war. Every family, every community was affected. The United Nations Truth Commission Report called it "la locura" of violence, a madness. Surely, now that peace agreements have been signed, things would be different.

And in many ways, they were. Political competition flourished; electoral processes matured; parties formed coalitions, broke apart, and built organizations year upon year. The ruling party during the final years of the civil war, ARENA, maintained its power, base and organization following the Peace Accords, winning consecutive elections for the next 17 years. But then, in 2009, after nearly two decades of party-building and municipal and legislative electoral victories, the FMLN opposition party won the presidency. It was a watershed moment for El Salvador.

Sadly, many other things did not change in El Salvador following the peace accords. The ability of the Salvadoran courts and justice system to hold elites, government officials, and members of the military and security forces accountable for crimes, including human rights crimes, continued to fail, reinforcing a culture and sense of impunity.

El Salvador's geography and place on the map, of course, did not change – and it suffered and continues to be ravaged by annual floods, frequent earthquakes, and other natural disasters – Tropical Storms Ida and Agatha being just the most recent examples. The impact of these disasters is often amplified by ill-conceived development initiatives and environmental degradation, all man-made disasters.

The poor have not benefitted from trade and investment and international aid has, by and large, diminished significantly, including aid from the United States. And the annual migration of thousands of Salvadorans to the United States is as great or greater as it was during the period of the civil war.

At the same time, some things have gotten worse. Little could I have imagined the violence in El Salvador becoming worse after the war, but it has. Criminal networks have invaded the country and they use it to traffic drugs, guns, human beings and other contraband throughout the hemisphere. Youth gangs are exploited, poor neighborhoods are terrorized, security and judicial authorities are corrupted, and crime, violence and murder have exploded.

This is not the future any of us envisioned for El Salvador, but it is the reality inherited by Mauricio Funes when he assumed the presidency in 2009. I have had the privilege of meeting President Funes. I find him and many members of his administration – including Foreign Minister Hugo Martínez – to be both pragmatic and creative, committed to improving the lives of El Salvador's majority poor and vigorously addressing the crime and corruption that are robbing the country of its longed for peace. This publication reviews how

the Funes government during its first twelve months in office has begun to move the ball forward, or failed, or been frustrated by forces inside their own government, inside El Salvador, and by global forces that operate outside their borders and the troubled global economy. As we all know, new governments have a very small window during which they have to deliver tangible changes and benefits – or people lose hope, become angry and turn sour towards the government.

I was in El Salvador in November 2009 to commemorate the 20th anniversary of the terrible murders of the six Jesuit priests and two women, who were killed by the Salvadoran army on the campus of the Central American University (UCA). I was struck, once again, by the sense of hope and opportunity among the people that the new government could make sweeping changes to long-neglected problems in El Salvador.

Unfortunately, there are also long-standing institutional problems that remain obstacles to reform, the pursuit of justice, and even the consolidation of democracy. In my opinion, the attorney general's office – the *Fiscalía* – continues to be the place where justice goes to die. Countless cases of murder, corruption, drug trafficking, money laundering and other crimes are stymied within its halls.

Don't get me wrong – there are many fine investigators and prosecutors within the *Fiscalía*. But many of the most important crimes – those whose successful investigations, prosecutions and convictions would demonstrate that El Salvador has finally begun to crack open the culture of impunity – never move forward.

So, for example, if the Inspector General for the National Police finds criminal elements within the police force, what is she to do? Send them to the attorney general's office where they simply languish or are quickly dismissed? Just like the murder cases of community and environmental leaders in Cabañas? Or the Katya Miranda case? Or the murder of U.S. trade unionist Gilberto Soto? Or cases involving the *Perrones* drug-trafficking network? And if these internationally-known cases go nowhere or are deliberately led astray, what hope does the average Salvadoran have that he or she will ever receive justice before the courts?

And so impunity continues to be the norm.

I was also struck by how intransigent forces inside El Salvador are equally as committed to frustrating any change – or even worse, forcing the country to go backwards. These are forces that benefit from the culture of impunity. These are forces that benefit



from corruption. These are forces that have never had to pay their fair share, resent being asked to contribute directly to national development, and place profit and personal privilege above the common good. These are forces linked directly to criminal activity – or who protect and benefit from it.

And they want the Funes government – or likely any government that promotes social change – to fail.

When I was in El Salvador, it was also at the time of the coup in Honduras. And there were definitely groups inside El Salvador who were thinking about – and even talking about – whether a similar coup in El Salvador could be carried out. For those of us who see El Salvador right now as the most stable, functioning democracy in Central America, other than Costa Rica, despite the escalating criminal violence, it is very troubling to know that the Funes government might face similar internal threats to its democracy. I think it is critical for the U.S. government to clearly signal it would not welcome or support any such efforts to destabilize, let alone overthrow, the current Salvadoran government.

I love El Salvador. I love its people. I believe the Salvadoran people are the country's greatest asset to promote development, establish respect for human rights, break impunity, pursue justice, and create a climate of peace and reconciliation. They are the hope and the opportunity for that future we all dreamed about following the signing of the peace accords – and which, I still believe, will one day flourish in El Salvador.”

Cristina Eguizábal of Florida International University argued El Salvador's foreign policy has remained for the most part consistent following the change in administration. Regional cooperation on issues of democratic governance, poverty reduction, and public security have remained on track, and the Funes administration has taken proactive steps to address lingering border and economic disputes with Honduras. Presidents from both nations attended the inauguration of the *Puerto de la Unión Centroamericana*, the region's most sophisticated port located on their shared border. Relations following the coup in Honduras were strengthened as El Salvador lobbied for the reentry of its neighbor into the Organization of American States (OAS) and the Central American Integration System (SICA). Cooperation with the United States has also rapidly improved. Migration and drug trafficking issues, acceptance of a dollar-based economy, and the eco-

nomie impact of diasporas are factors which have deepened ties with the United States. According to Eguizábal, remittances from the two and a half million Salvadorans living outside of El Salvador, of which 90 percent live in the United States, account for an estimated 18–20 percent of the country's gross domestic product.

Beyond forging transnational ties, El Salvador has also sought to demonstrate its autonomy in the global realm. Diplomatic relations have been established and re-established with India, Australia, Russia, and Cuba; energy cooperation is being explored with Venezuelan-backed Petrocaribe; and President Funes has sought to continue formal relations with Taiwan in a respectful manner which does not compromise future relations with China. Eguizábal concluded the Funes administration has followed the general foreign policy paradigm established by previous governments, though there are some efforts to continue expanding international relations.

Executive Director of *FUNDAUNGO*, **Ricardo Córdova Macías** argued the Funes election victory meant a change in the traditional relationship between political actors, political parties, and institutions. This rearrangement and realignment, initially beginning during the electoral campaign, have continued to take form since President Funes' inauguration. Although Mauricio Funes represented the FMLN party in the March 2009 elections, he was able to separate himself far enough ideologically during the election to capture a sufficient non-FMLN voting bloc. After a tight race, Funes won with a narrow margin of victory, with the FMLN party capturing 51.3 percent and ARENA party 48.7 percent of the votes. As a result of the electoral defeat, a group of legislators split from ARENA party to form a new political entity, the GANA party. Upon entering office, President Funes has sought to distance himself from the FMLN in order to seek broader margins of independence and interaction with the different political actors.

The FMLN currently has the largest number of seats in the legislative assembly, though this does not amount to a majority. Córdova argued the new political context and the variety of political parties represented in the legislature have created a more dynamic environment, allowing lawmakers to create and broker new alliances. In turn, this has had an impact on the relationship between the executive and legislative branches, and differences between the

President and his party have arisen. President Funes has signaled his belief that he has a greater responsibility to govern as the head of a nation rather than as the leader of a political party. The political independence of the Funes administration is a factor which must be handled prudently to avoid political alienation and a stalemate with the FMLN and in the legislative assembly. Thus, maintaining a healthy relationship between the president and the FMLN will depend on the capacity and willingness of both sides to administer their political differences.

Córdova highlighted two key challenges in coming years. First, following the end of the post-electoral honeymoon, the Funes administration must address the two most important issues for Salvadorans: the economy and rising levels of insecurity. Second, Funes' high levels of popularity and concomitant political capital provide a unique opportunity to promote institutional reform measures, particularly electoral reform.

Continuing violence and a poor economy illustrate the meager results from the first year of the Funes presidency according to **Federico Hernández** of the Chamber of Commerce and Industry of El Salvador. The 2004 presidential elections served as a wake up call for the FMLN, indicating that the party needed a candidate not directly tied to the FMLN in order to win in 2009. Hernández argued that, just as the FMLN needed the independence of Mauricio Funes to capture the presidency, Mauricio Funes depended on the spatial and political networks of the FMLN to win the election. The election and victory for Funes caused its largest competitor, the ARENA party, to fracture: 14 legislators split from ARENA and, along with former president Antonio Saca, formed the GANA party. During his first year in office, President Funes filled cabinet positions in a very structured manner. Positions dealing with economic policy were given to non-FMLN Funes advisors, while positions related to social policy, such as public security, public works, agriculture, health, and education, were given to FMLN party members. Overall, Hernández noted that the transition of executive power from the ARENA party to the FMLN was surprisingly smooth.

Since entering office, President Funes has faced increased scrutiny regarding campaign promises and the ideological direction of his administration. The continued increase in the national homicide rate and Funes' tendency to blame the previous administra-

tions for the lack of effective action to curb crime and violence is raising concern and skepticism. Hernández pointed out that, half-way through 2010, Funes' promise to increase employment has yet to bear fruit. A number of corruption charges have been levied against the Funes campaign, and while certain government social programs have been popular, their medium-term effect on the economy and development of El Salvador will be counterproductive. President Funes is widely seen as able to moderate and modernize the FMLN, though militants within his party have voiced public dissent regarding the direction of his policies. In the end, Hernández stated in order for Funes' agenda to succeed, he must deliver on his campaign promises without alienating the FMLN's electoral base.

Florida International University Visiting Professor **José Miguel Cruz** stated that the Funes administration faced insurmountable public expectations regarding its ability to control violence and insecurity. Violence, high murder rates, and dismal executive leadership on security matters have been constant in El Salvador's history, and these factors continued to be evident today. Cruz argued successes can be claimed by the Funes government in terms of passing legislation on police oversight, purging corrupt police officials, and creating a greater sense of community and acceptance of police forces. However, these victories focus on but one of the many institutions tasked with fighting violence and organized crime. Others, including the judiciary, the financial sector, and political parties, continue to have direct, proven connections with criminal groups. Though the military is valuable in countering violence, Cruz cautioned that an extensive incursion into the fight against organized crime could lead to military corruption and relationships with drug trafficking organizations, as seen in Honduras and Guatemala. Furthermore, Cruz rejected the notion that organized crime syndicates are filling the voids in locales that lack state security personnel. Rather, these groups are co-opting geographical areas, recreating patronage networks instrumental to organized crime activities, and partnering with existing political and community leaders, as has been done historically. The interconnected network of criminal organizations and politicians leaves everyday Salvadorans caught in the middle. A victim of any criminal act has few options



for seeking retribution or justice without becoming indebted to a criminal organization or being targeted for retribution for having approached the police or a state official. According to Cruz, these factors, coupled with the nation's corrupt judiciary and a leadership in the executive office hesitant to address insecurity demonstrate how the cyclical nature of violence is perpetuated in El Salvador.

William Pleitéz of the El Salvador office of the United Nations Development Program assessed the impact the global economic crisis on El Salvador and the policy reactions of the Funes administration. The spike in international oil and commodity prices led to a 9.9 percent inflation rate in El Salvador, consequently limiting the ability of those with fixed or minimum wages to purchase basic necessities. Second only to Mexico as the nation hardest hit by the global economic crisis, El Salvador reported a negative 3.3 percent growth rate in 2009. For the first time in 20 years, the country experienced a decline in the levels of remittances sent from abroad; and approximately 30,000 formal jobs were lost as a result of the crisis. Trade was also hard hit: El Salvador's exports fell by 16.5 percent in 2009, although the trade deficit diminished in 2009.

The Funes administration's response to the economic crisis has mainly focused on the provision of social services. Funes' Global Anti-Crisis Plan, announced in June 2009, has aimed at compensating and protecting vulnerable populations, preventing the further loss of jobs, implementing universal social safety nets. A fiscal package was introduced in 2009, which included new taxes on specific items such as gasoline, alcohol, and tobacco in order to increase tax revenues. Pleitéz highlighted the public admonishment of President Funes' continued dedication to social platforms issues. However, citing deficit, tax rate, and available governmental fund levels, he showed how El Salvador's low level of tax rates and negative primary balance continues to inhibit the state from the necessary capital to fund a wider array of social services. Pleitéz warned that due to the combination of fiscal mismanagement and lower tax revenues, the debt to GDP increased rapidly between 2008 and 2009, the potential for an increase of 7.6 percent in public deficit by 2014, and an expected public debt totaling 60 percent of GDP by the end of

the Funes government in 2014. At least, this will be the case in a "passive" scenario, which highlights the urgency for comprehensive fiscal reform. In order to counter these trends, the International Monetary Fund (IMF) and government of El Salvador signed an agreement calling for a 4 percent increase in tax rates by 2015, an increased investment in public sector programs, and a reduction of public debt to slightly lower than 2009 levels. Analyzing the effects of this agreement, Pleitéz concluded that fiscal conditions could worsen in the future, leading debt to dangerous high levels. Nonetheless, he argued that El Salvador is in need of an adjustment that goes beyond the fiscal sector, incorporating areas of savings, investment, and commercial sectors to improve economic performance and growth.

Luis Membreño of the National Association of the Private Sector (ANEP) argued that the nation's economic problems stem not from inflation or high consumer prices, but rather from a lack of confidence in the business environment due to political insecurity and polarization. Membreño cited IMF figures to demonstrate that in mid-2010, El Salvador was the only Central American economy still in recession. Negative sales indicators and variations in economic activity, seen in Figures 2 and 3, has depressed public confidence and thus investment and credit demand. Membreño stated the increase in oil imports relative to all other goods was the principal reason maintaining El Salvador's negative growth. Annual increases in imports outpaced exports in 2010 by 4.6 percent, resulting in a negative trade balance. Remittances, as shown in previous presentations, experienced an unprecedented, historical decline; and while March – May of 2010 showed a rebound in these figures, their effects argued Membreño have yet to be seen. In attempts to boost national revenue figures, a passed tax law effectively created a rift between the private sector and the Funes government, a law which Membreño concluded did not have the effect the government intended. Membreño called for the end of partisan politics, and for a national and political push to follow the rhetoric of unity advocated by President Funes. In that vein, Membreño challenged the Funes administration to seize the opportunity to address the deeper issues affecting the nation's economy.

Figure 1

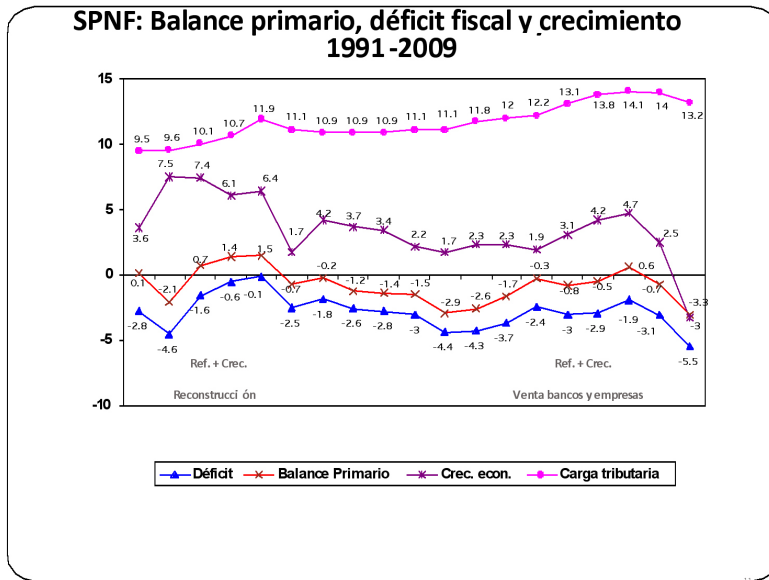


Figure 2

SALES INDICATOR OF FUSADES

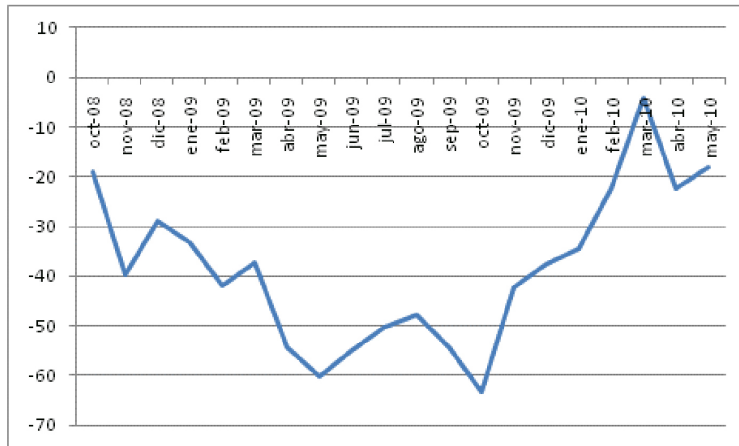
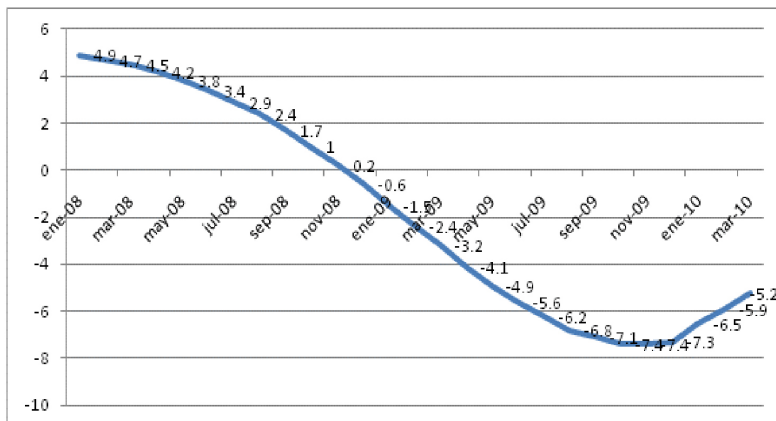


Figure 3

IVAE UP TO MARCH 2010



Notes

1. Clare Ribando Seelke, "El Salvador: Political, Economic, and Social Conditions and U.S. Relations," Congressional Research Service, January 3, 2011, 10.
2. USTR figures can be found at <http://www.ustr.gov/countries-regions/americas/el-salvador>.
3. IMF, IMF Country Report No. 10/307 (Washington, D.C.: IMF, October 2010) 5, 22; available at <http://www.imf.org/external/pubs/ft/scr/2010/cr10307.pdf>
4. LAPOP, AmericasBarometer/Barómetro de las Américas, 2010, www.lapopsurveys.org
5. Losses due to theft, robbery, vandalism, or arson represent 2.6 percent of company sales, the highest rate in Latin America and the tenth highest in the world. See "Crime Cost: El Salvador Worst," Latin American Business Chronicle, August 10, 2010.
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10. Presentation, "Obama Administration Relations with Central America: A Conversation with Eight U.S. Ambassadors," Woodrow Wilson Center, February 1, 2011.
11. See Douglas Farah, "Organized Crime in El Salvador: The Homegrown and Transnational Dimensions," Latin American Program Working Paper Series on Organized Crime in Central America, February 2011, www.wilsoncenter.org/events/docs/Farah.FIN.pdf

About the Contributors

Cynthia Arnson is director of the Latin American Program at the Woodrow Wilson International Center for Scholars. She has followed Salvadoran politics for more than 30 years and during the 1980s worked on Central American issues for Rep. George Miller (D-CA). Arnson has an MA and PhD in International Relations from The Johns Hopkins University.

Ricardo Córdova is the executive director of the Fundación Dr. Guillermo Manuel Ungo (FUNDAUNGO) in San Salvador, El Salvador. He is a leading researcher on Central American politics, and uses survey research methods to analyze political attitudes and practices throughout Central America. Córdova has authored some 25 book-length studies on politics and political movements in Central America, and numerous articles on the subject. He earned a PhD in Political Science at the University of Pittsburgh.

José Miguel Cruz is a visiting professor at Florida International University. He is a long-time collaborator with Vanderbilt University's Latin America

Public Opinion Project and is involved in research projects on Latin American political culture and violence. He has been the director of the University Institute of Public Opinion (IUDOP in Spanish) at the UCA for ten years, and member of the Editorial Board of the academic journal *Estudios Centroamericanos* (ECA). Cruz received his B.A. in Psychology from Universidad Centroamericana (UCA) in San Salvador and M.Sc. in Public Policy on Latin America at Oxford University, England.

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Federico Hernández serves as the executive director for the Chamber of Commerce and Industry in El Salvador, having previously been the president of the National Council for Culture and Art. The most published Salvadoran of his generation, he is widely known as a poet, narrator, and essayist. He has received numerous awards in El Salvador and has published several works and anthologies of poems throughout Central America, the Caribbean, South America, and Europe. Hernández has completed professional studies in Political Science and Communication.

H.E. Hugo Martínez has been Minister of Foreign Relations of El Salvador since June 1, 2009. He has held a variety of positions in public and academic life in El Salvador and Central America, including advisor to the Central American University Council and member of the Consultative Commission of the Ministry of Foreign Relations of El Salvador. In 2003 he was formally elected to the Legislative Assembly of El Salvador and held a variety of important positions in the FMLN delegation to the Assembly. Between 2006 and 2009 he presided over the Commission on Culture and Education and was a member of the Commission on Foreign Affairs, Central American Integration, and Salvadorans Abroad, a commission he eventually directed before assuming the position of Minister of Foreign Relations. Martínez has a BA in Engineering from the University of El Salvador, a Masters in Engineering from the Université de Toulouse, and undertook additional postgraduate studies in Business Administration from the Universidad Centroamericana José Simeón Cañas.

Rep. Jim McGovern is currently serving his eighth term in the House of Representatives. McGovern is a Minority Whip and the second ranking mem-

ber on the House Rules Committee, a member of the House Agriculture Committee, and co-chair of both the Tom Lantos Human Rights Commission and the House Hunger Caucus. Before his election to Congress, he spent fourteen years working as a senior aide for the late U.S. Representative John Joseph Moakley (D-South Boston). In 1989, McGovern was the lead investigator on the Moakley Commission Congressional Investigation into the murders of 6 Jesuit priests, their housekeeper, and her daughter in 1989. The investigation ultimately led to a turnaround in U.S. foreign policy towards El Salvador when it was determined that the Salvadoran military was implicated in the murders. He earned his BA and Masters of Public Administration degrees from American University.

Luis Membreño has worked as an adviser to Scotiabank in El Salvador, and through his firm has been a prominent economic consultant for private businesses. He is also a board member of FUSADES, a private think tank promoting economic development and democratic governance in El Salvador. Membreño was advisor to President Alfredo Cristiani in 1993-1994, and advisor to the Finance Minister in 2001-2003. He was also a member of the Banco de Comercio board from 2001-2005. Membreño writes a bi-weekly column in *La Prensa Gráfica*, one of the most influential papers in the country. Membreño has a BA in Economics from Francisco Marroquín University of Guatemala and a post-graduate degree in Applied Macroeconomics from the Catholic University of Chile.

William Pleitéz works for the United Nations Development Program in El Salvador and has been general coordinator of the *Human Development Report* for El Salvador since 2000. Between 1998 and 1999 he was an advisor in agricultural policies and international trade negotiations for the Ministry of Agriculture and Livestock, as well as for the Bureau of Trade Policies and International Negotiations of the Ministry of the Economy of El Salvador. Pleitéz has written dozens of articles in Salvadoran and Central American journals and newspapers. Pleitéz has a BA in Economics from the Universidad Centroamericana José Simeón Cañas, a Masters in Political Economy and Development from the Université Aix-Marseille II, and a Doctorate in Economic Sciences from the Université de Paris VIII.



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