



# El Salvador: Political and Economic Conditions and U.S. Relations

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## Summary

Congress has maintained a strong interest in developments in El Salvador, a small Central American country with a population of 6 million. During the 1980s, El Salvador was the largest recipient of U.S. aid in Latin America as its government struggled against the leftist Farabundo Martí National Liberation Front (FMLN) insurgency during a 12-year civil war. A peace accord negotiated in 1992 brought the war to an end and formally assimilated the FMLN into the political process as a political party. After the peace accords were signed, U.S. involvement shifted toward helping successive Nationalist Republican Alliance (ARENA) governments rebuild democracy and implement market-friendly economic reforms.

### **Funes Administration**

Twenty-one years after the signing of the peace accords, El Salvador is governed by an FMLN Administration. In March 2009, Mauricio Funes, a former television journalist and the first FMLN presidential candidate without a guerilla past, defeated Rodrigo Ávila of the conservative ARENA party for a five-year presidential term. President Funes has generally pursued moderate policies that have enabled him to form cross-party coalitions in the National Assembly, but caused periodic friction with more radical members of his party.

Now in his fourth year in office, President Funes still has high approval ratings, but faces a number of serious challenges. His political influence has weakened since ARENA replaced the FMLN as the largest party in the legislature and the attention of both parties has turned to the 2014 presidential contest, which President Funes is constitutionally barred from contesting. Nevertheless, Funes successfully mediated a resolution to a months-long standoff between the Salvadoran judiciary and legislature over the composition and power of the Supreme Court in August 2012. In the economic realm, the Funes Administration is seeking to boost investment and growth, which has been inhibited by low productivity, natural disasters, and insecurity. In an attempt to address insecurity in the country, the Funes government endorsed a historic—and risky—truce involving the country’s largest gangs. The truce has contributed to a large reduction in homicides since March 2012.

### **2014 Elections**

Political attention in El Salvador is turning toward the country’s March 2014 presidential elections. ARENA has selected Norman Quijano, the popular second-term mayor of San Salvador, as its standard bearer. His running mate is Rene Portillo Cuadro, a lawyer. The FMLN has chosen Salvador Sánchez Cerén, the current Vice President and a former guerrilla leader, and Oscar Ortiz, the popular mayor of Santa Tecla. Former President Elías Antonio “Tony” Saca has also entered the race on a “Unity Movement” coalition ticket, but has yet to name a running mate. Saca could potentially force a runoff election.

### **U.S.-Salvadoran Relations**

Congress has maintained an interest in events in El Salvador as well as bilateral relations, particularly in the security realm. During a March 2011 visit to El Salvador, President Barack Obama and President Funes pledged to strengthen cooperation through the new Partnership for Growth (PFG) initiative. The PFG commits both governments to work closely together to boost competitiveness and reduce insecurity in El Salvador. Congress has provided bilateral assistance, which totaled \$28.2 million in FY2012, as well as aid provided through the Central American

Regional Security Initiative (CARSI), in support of PFG priorities. The Millennium Challenge Corporation (MCC) recently completed a five-year \$461 million program that helped develop El Salvador's northern border region. MCC has determined that El Salvador is eligible to submit a second compact proposal to develop its southern coastal region. It is as yet unclear how the U.S. Treasury Department's recent designation of the MS-13 gang as a major transnational criminal organization whose assets will be targeted may affect bilateral anti-gang efforts.

This report examines current conditions in El Salvador as well as issues in U.S.-Salvadoran relations. For related information, see: CRS Report R41731, *Central America Regional Security Initiative: Background and Policy Issues for Congress* and CRS Report RL34112, *Gangs in Central America*.

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## Political, Security, and Economic Conditions

### FMLN Victory

On June 1, 2009, Mauricio Funes of the leftist Farabundo Martí National Liberation Front (FMLN), a party that was formerly an armed revolutionary movement, was inaugurated to a five-year term as president of El Salvador. Funes, a former television journalist and the first FMLN presidential candidate without a guerilla past, defeated Rodrigo Ávila of the conservative Nationalist Republican Alliance (ARENA) 51%-49% in a March 2009 election. Born in San Salvador in 1959, Funes earned a liberal arts degree from the University of Central America (UCA) José Simeón Cañas. He then spent more than 20 years working as a print, radio, and television journalist, becoming one of the most popular and well-respected figures in his field. In 2007, he was chosen to serve as the FMLN's 2009 presidential candidate, reportedly because party leaders thought that he would bring a modern face to the party.

Despite some concerns about potential fraud and a few cases of inter-party violence in the weeks preceding the vote, the election was conducted relatively peacefully after an extremely polarizing campaign.<sup>1</sup> During the campaign, ARENA sought to tie Funes to the more hard-line members of the FMLN and asserted that an FMLN victory would lead to deterioration in relations with the United States and the installation of an authoritarian political system. Funes attempted to project a moderate image, campaigning on the slogan, "hope is born, change is coming," but also promising to maintain close ties with the United States, implement the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), and keep the U.S. dollar as El Salvador's currency.<sup>2</sup>

Funes' presidential victory was a first for the FMLN, which fought a 12-year civil war against the U.S.-backed Salvadoran government before officially transforming into a political party following the signing of a peace accord in 1992. Some 70,000 Salvadorans (1.4% of the population) were killed during the conflict.<sup>3</sup> The presidential victory followed a strong showing by the FMLN in the January 2009 municipal and legislative elections, in which it won 49.5% of the municipal vote and a plurality in the National Assembly. Funes' election has been described as a watershed moment in the history of El Salvador. However, an analysis of Salvadoran voting behavior since 1992 concluded that Funes' victory occurred at least partially as a result of a gradual shift leftward among Salvadoran voters that was already evident by early 2008.<sup>4</sup>

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<sup>1</sup> Some 5,000 national and international electoral observers supervised the proceedings while 20,000 members of the Salvadoran military and police provided security. "El Salvador: 20,000 Policías y Soldados en Comicios," *Associated Press*, March 4, 2009; "El Salvador Prepares to Vote," *Latin News Daily*, March 13, 2009.

<sup>2</sup> Maureen Meyer, *Election Season in El Salvador*, Washington Office on Latin America (WOLA), January 15, 2009.

<sup>3</sup> Priscilla B. Hayner, *Unspeakable Truths: Facing the Challenge of Truth Commissions*, (New York, NY: Routledge, 2002).

<sup>4</sup> Dinorah Azpuru, "The Salience of Ideology: Fifteen Years of Presidential Elections in El Salvador," *Latin American Politics and Society*, Summer 2010.

Figure I. Map and Data on El Salvador



**Source:** Map prepared by CRS. Data gathered from U.S. Department of State, “Background Note: El Salvador,” February 2012; World Bank, *World Development Indicators*; Economist Intelligence Unit (EIU); Global Trade Atlas; U.N. Economic Commission for Latin America and the Caribbean.

## Funes Administration

President Funes has generally pursued moderate policies since taking office. This has caused some friction between him and more radical members of the FMLN, including Vice President Salvador Sánchez Cerén, a former guerrilla leader who is the party’s 2014 presidential candidate. Many credit President Funes’ pragmatic approach to governance with helping his administration secure much-needed support from the International Monetary Fund (IMF) and other donors. Others express concerns, however, that he has strayed too far away from his FMLN base since forming an alliance with the Grand Alliance for National Unity (GANU) party, a dissident faction

that split from ARENA in October 2009 that is led by former president Elías Antonio (Tony) Saca. Although his government has struggled to improve the weak economic conditions and to address the serious security challenges it inherited, President Funes has maintained high approval ratings (75% in March 2013).<sup>5</sup>

Funes has also sought to address human rights violations from El Salvador's civil war era. He issued a historic apology to victims of the 1981 El Mozote<sup>6</sup> massacre on the 20<sup>th</sup> anniversary of the signing of the Peace Accords. In December 2012, the Funes government "recognized" the Inter American Court of Human Rights (IAHCR) ruling that El Salvador needs to reinvestigate the El Mozote massacre and guarantee the rights of victims to seek reparations.<sup>7</sup> The government stopped short, however, of promising to reinvestigate the incident and prosecute those found accountable, which would require a repeal of the country's 1993 amnesty law. The Funes government has not pushed for a repeal of the law nor did it urge the Salvadoran Supreme Court to extradite military officers to Spain to stand trial for their roles in the 1989 murders of Jesuit priests.<sup>8</sup> Twenty years after the U.N. Commission released its report on the war in El Salvador<sup>9</sup>, Amnesty International issued a statement lamenting that the perpetrators of crimes identified in that report have not been brought to justice in El Salvador and that survivors have not received reparations.<sup>10</sup> However, some former military leaders residing in the United States are facing judicial proceedings that could lead to their arrests and/or removals from the country.<sup>11</sup>

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<sup>5</sup> "Encuesta: Pareja Presidencial Salvadoreña, con Gran Respaldo," *DPA Servicio Internacional en Español*, March 11, 2013.

<sup>6</sup> Between December 11 and 13, 1981, Salvadoran government troops killed nearly 1,000 peasants suspected of collaborating with FMLN guerrillas in the village of El Mozote. The troops were never punished for their involvement in the massacre. "El Salvador: President Apologizes for 1981 Massacre," *Associated Press*, January 16, 2012.

<sup>7</sup> Benjamin Witte Lebharr, "IACHR orders El Salvador to Investigate Three-Decade-Old El Mozote Massacre," *Noticen: Central American & Caribbean Affairs*, January 17, 2013.

<sup>8</sup> In addition to the El Mozote massacre, the 1989 killing of six Jesuit priests (five Spanish citizens), their housekeeper, and her daughter at the UCA marked another of the worst instances of human rights abuses carried out by military forces during the Salvadoran civil war. In 1991, under international pressure, a colonel, two lieutenants, a sub-lieutenant, and five soldiers were tried for the Jesuit murders. Only the colonel and one of the lieutenants were convicted; a 1993 amnesty law spared them significant prison time. It has prevented other high-level former military officials from being investigated or indicted in El Salvador for their alleged roles in the massacre. A Spanish judge began investigating the massacre in 2009, however, based on the principle of universal jurisdiction for human rights abuses and the Spanish origin of five of the priests. On May 8, 2012, El Salvador's Supreme Court rejected Spain's request to have 13 former military officers allegedly involved in the murders extradited to stand trial. For background, see Geoff Thale, *The Anniversary of the Jesuit Martyrs & Justice in El Salvador Today*, WOLA, November 16, 2011.

<sup>9</sup> Belisario Betancur, Reinaldo Figueredo Planchart, and Thomas Buergenthal, *From Madness to Hope: The 12-Year War in El Salvador: Report of the Commission on the Truth for El Salvador*, United Nations, 1993, available at: <http://www.usip.org/files/file/ElSalvador-Report.pdf>.

<sup>10</sup> Amnesty International, "El Salvador: No justice 20 years on from UN Truth Commission," press release, March 15, 2013.

<sup>11</sup> In February 2012, a federal judge determined that a former Salvadoran Defense Minister, Gen. Carlos Eugenio Vides Casanova, can be removed (deported) based on his past history of human rights violations. Julia Preston, "Salvadoran May Face Deportation for Murders," *New York Times*, February 23, 2012. In another case, Colonel Inocente Orlando Montano, one of the officials named by the Spanish judge as responsible for the Jesuit murders, pled guilty to immigration fraud in September 2012 and could face four years imprisonment. ICE's Human Rights Violators and War Crimes Center found that Montano had hidden his military past when applying for Temporary Protected Status (TPS) in the United States. ICE, "Former Salvadoran Military Officer Pleads Guilty to Concealing Information From U.S. Government," press release, September 11, 2012.

Analysts predict that President Funes will encounter greater difficulty enacting his legislative agenda and implementing his ambitious development plan<sup>12</sup> now that he has entered lame duck status.<sup>13</sup> ARENA regained popular support vis-à-vis GANA and the National Coalition party or CN, which replaced the National Conciliation Party (PCN),<sup>14</sup> in the March 2012 legislative elections, increasing its representation in the 84-member legislature from 20 to 33. The FMLN lost 4 seats in the elections; it now has 31 congressional seats. Since the elections, however, ARENA has reportedly had five deputies leave the party.<sup>15</sup>

With no party having captured a simple majority, President Funes must form alliances to pass legislation. Funes has pledged to shepherd a law to allow seizure of criminal assets and a package of reforms aimed at facilitating business creation and investment through the legislature.<sup>16</sup> He secured legislative approval of an \$800 million bond issue in the fall of 2012 that will be used to pay for foreign debt payments that came due in early 2013. After a protracted dispute between the parties in the Assembly, they finally selected a new attorney general in December 2012 (the post had been vacant since September 2012). In January 2013, the Assembly passed a law backed by President Funes to revise existing legislation regulating free trade zones and international services to attract more foreign investment. A law to promote public-private partnerships remains pending. The IMF has urged the parties to enact agreements on economic and political policies that will be put in place as the country transitions to a new government in 2014 if they want El Salvador's stand-by-agreement to be renewed.<sup>17</sup> Notwithstanding this progress, there has been ongoing tension between the Assembly and the constitutional chamber of the Supreme Court (see "Constitutional Crisis and Lingering Institutional Instability").

## **Constitutional Crisis and Lingering Institutional Instability**

From June to August 2012, the Funes Administration found itself in the midst of a constitutional crisis over the make-up and authority of El Salvador's Supreme Court. The court is comprised of 15 justices that are divided among four chambers, including a constitutional chamber. Five justices are appointed to the Court every three years by a two-thirds vote in the National Assembly after often highly politicized negotiations. They serve for nine-year terms. Following the 2009 elections, the Assembly approved five new justices after difficult negotiations.

Since their installation in 2009, the five justices on the constitutional chamber of the Supreme Court have taken actions which appeared intended to check the power of the president and the legislature, something it has historically failed to do. These rulings have allowed independent candidates to run for office, limited the use of the discretionary budget of the presidency, and revoked the charters of two political parties for not maintaining the level of popular support

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<sup>12</sup> An outline of the Funes Administration's development plan is available at: [http://www.uca.edu.sv/deptos/economia/media/archivo/be567c\\_planquinquenaldedesarrolloelsalvador20102014.pdf](http://www.uca.edu.sv/deptos/economia/media/archivo/be567c_planquinquenaldedesarrolloelsalvador20102014.pdf).

<sup>13</sup> "Funes is Facing a Difficult Final Stretch to his Presidency," *Economist Intelligence Unit (EIU)*, June 18, 2012.

<sup>14</sup> In 2011, the Constitutional Chamber of the Salvadoran Supreme Court ruled that the National Conciliation Party (PCN) and the Christian Democratic (PDC) party did not meet the threshold of support required to register to compete in the 2012 elections. As a result, PCN members formed the National Coalition (CN) party and Christian Democratic members formed the Party of Hope.

<sup>15</sup> "ARENA Sufre Nueva Fisura en su Bancada Legislativa," *La Prensa Gráfica*, April 4, 2013.

<sup>16</sup> U.S. Department of State, *Partnership for Growth El Salvador-United States, Six Month Scorecard: November 2011-May 2012*, July 2012.

<sup>17</sup> "IMF Issues Stark Warning for Agreement Renewal," *EIU*, March 22, 2013.



required by the constitution. These rulings angered politicians from across the political spectrum and have led to threats to the independence of the court.<sup>18</sup> In June 2011, for example, President Funes hastily signed a decree adopted by the National Assembly that would have constrained the independence of the justices on the constitutional chamber. The decree was repealed in July 2011 after protests from domestic and international civil society groups.<sup>19</sup> Although the repeal reaffirmed the independence of the court, tensions between the three branches of government still simmered beneath the surface.

As noted above, the ARENA party picked up a number of seats and displaced the FMLN as the largest party in the Assembly in March 2012 legislative elections. In April, before the outgoing Assembly's three-year term ended, FMLN deputies and their GANA allies approved a new set of five justices for the Supreme Court in an attempt to influence the court's direction (as ARENA-dominated legislatures had done in the past).<sup>20</sup> They also sought to transfer the head of the constitutional chamber to another chamber of the court and appointed a new attorney general.

In June 2012, the constitutional chamber ruled that the vaguely worded Salvadoran constitution only allows each legislature to nominate one group of five justices to the Supreme Court. As a result, the National Assembly's April 2012 appointments were deemed unconstitutional, as the outgoing legislature had already appointed one group of justices in 2009. A similar situation took place in an earlier Assembly when five justices were appointed at the beginning of 2003 and a second group in 2006 at the end of that Assembly's term. The chamber found the 2006 appointments to be unconstitutional as well, and ruled that both the 2006 and 2012 appointees had to be replaced.<sup>21</sup>

The chamber's decision prompted ongoing tensions between the legislature and the constitutional chamber to erupt into a full-blown crisis. The Assembly rejected the court ruling and filed a lawsuit against the constitutional chamber with the Central American Court of Justice (CACJ), a body that many legal experts maintained did not have the authority to overturn a Supreme Court decision of one of its member states.<sup>22</sup> The newly elected justices then forcibly entered the court building to take their seats on July 1, despite protests from the constitutional chamber. El Salvador then had two groups of judges claiming to be on the Supreme Court.

On July 10, 2012, the constitutional chamber also declared the outgoing legislature's April 2012 selection of a new attorney general, originally scheduled to assume his position in September, to be unconstitutional. The justices again argued that each legislature is only entitled to select one attorney general. The legislature also rejected that ruling.<sup>23</sup>

Pressure from the United Nations, the United States, and others may have prompted President Funes, who had previously avoided intervening directly in the crisis, to call all parties together in

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<sup>18</sup> FESPAD and Due Process of Law Foundation, *Informe Sobre la Situación de la Independencia Judicial en El Salvador*, March 2012. Hereinafter: DPLF, March 2012.

<sup>19</sup> DPLF, March 2012.

<sup>20</sup> Thale, July 2012.

<sup>21</sup> The constitutional chamber also ruled that the Assembly should make the selection process transparent, provide the reasoning for its decisions, and provide documentation that verifies the competence of people chosen as justices. The court also ruled that the legislature lacked the authority to transfer the lead justice on the constitutional chamber to another chamber.

<sup>22</sup> Mirte Posterna, "The Supreme Court Crisis in El Salvador," *Americas Quarterly*, July 18, 2012.

<sup>23</sup> "El Salvador's Institutional Crisis Worsens," *Latin News Daily*, July 11, 2012.

late July to hammer out a compromise that respects the Salvadoran constitution. Obama Administration officials expressed confidence that the crisis could be resolved in a manner that respects the Salvadoran constitution without U.S. intervention. In contrast, some Members of the U.S. Congress threatened to suspend certain U.S. assistance if a constitutionally sound solution was not reached soon.<sup>24</sup>

The resolution, negotiated by party leaders in 17 sessions led by President Funes and then approved by the National Assembly on August 20, involved the reelection of the same judges whom the constitutional chamber of the Supreme Court had ruled were elected unconstitutionally in 2006 and in April 2012. The resolution also replaced the judge originally selected to be president of the court and head of the constitutional chamber with another one of the 2012 class of judges with less overt ties to the FMLN. Most political and civic leaders have expressed relief that the resolution, albeit imperfect, respected the constitutional chambers' rulings.<sup>25</sup>

The resolution to the constitutional crisis did not address the constitutional court's July ruling that the outgoing Assembly's selection of a new attorney general in April 2012 was unconstitutional. Legislators agreed to hold another vote to fill the post, but that vote did not occur until December 2012 after months of pressure for the parties to compromise coming from President Funes and other actors, including the U.N. Rapporteur for the Independence of Judges and Lawyers.

In January 2013, the constitutional chamber ruled that the process by which the National Assembly has appointed judges to the Court of Auditors, which oversees the government's finances, is unconstitutional. Rather than appointing people who are both competent and independent, as required by the constitution, the Assembly has traditionally chosen people aligned with political parties. In mid-March, the Assembly re-did the appointments, again appointing people with party affiliations, which the constitutional chamber again rejected.<sup>26</sup>

These repeated political crises have negatively impacted the political climate in El Salvador. They have variously derailed legislative consideration of important initiatives, hurt relations between deputies from different parties, and weakened support for judicial independence in the country.

## **2014 Presidential Elections**

The results of the March 2012 municipal and legislative elections may not bode well for the FMLN heading into the 2014 presidential campaign. As previously mentioned, ARENA became the largest party in the National Assembly. ARENA captured 117 of 262 mayoralties up for grabs in 2012, including San Salvador and eight departmental capitals. The FMLN won just three departmental capitals.

Norman Quijano, recently selected to serve as ARENA's 2014 presidential candidate, won reelection for mayor of San Salvador in March by 35 percentage points over his FMLN opponent. The FMLN hopes that the party's selection of Oscar Ortiz, the popular mayor of Santa Tecla, to serve as Vice-President Sánchez Ceren's running mate will boost the party's support among

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<sup>24</sup> U.S. Senator Robert Menendez, U.S. Senator Marco Rubio, "Senators Menendez and Rubio Outline Steps to Deal with Constitutional Crisis in El Salvador," press release, July 17, 2012; U.S. Senator Richard Lugar, "Lugar Cautions Salvadoran Government to Refrain From Politicizing Judicial Institutions," press release, July 25, 2012.

<sup>25</sup> CRS interviews conducted in El Salvador, August 20-22, 2012.

<sup>26</sup> Fernando Romero et. al., "Presidente de Cuentas se Abstiene de Funciones," *La Prensa Gráfica*, March 23, 2013.

moderate voters. Former President Tony Saca has also entered the race representing a center-right “Unity Movement” coalition composed of GANA, the National Coalition party (CN), and the Party of Hope (formerly the Christian Democratic Party or PDC). President Funes has not backed any of the candidates.

## **Security Conditions**

The Funes Administration has struggled to confront the related problems of crime and violence that have plagued El Salvador since its civil war. According to the Civilian National Police (PNC), El Salvador recorded a murder rate of 69 per 100,000 inhabitants in 2011, one of the highest in the world. Drug trafficking, corruption, and a proliferation of illicit firearms, coupled with high levels of poverty, inequality, and unemployment, have contributed to the current situation. Drug trafficking organizations (DTOs), including Salvadoran groups such as the Taxis Cartel,<sup>27</sup> and Mexican groups such as Los Zetas, have increased their illicit activities in the country, including money laundering. Some analysts assert that connections between DTOs (national and transnational) and the Mara Salvatrucha (MS-13) gang are fairly well developed.<sup>28</sup> Between 20,000 and 35,000 Salvadoran youth belong to *maras* (street gangs),<sup>29</sup> which former PNC officials had maintained were responsible for half of all homicides and a majority of extortion in the country.<sup>30</sup> Deteriorating security conditions prompted President Funes to replace his FMLN minister of public security with retired general and former defense minister David Munguía Payés in November 2011. Munguía Payés has said that there could be 50,000 gang members in El Salvador and that up to 90% of homicides in the country are attributable to gangs or drug trafficking, estimates that may be somewhat inflated.<sup>31</sup>

## **Police, Military, and Judicial Capabilities and Human Rights Records**

As of 2011, the PNC had roughly 20,500 police, 86% of whom were agents, and a budget of approximately \$233 million. In comparison, there were 25,000 security guards working for registered private security firms in El Salvador in 2011.<sup>32</sup> With almost 90% of the PNC budget devoted to salaries and benefits for current officers, there has historically been limited funding available for investing in training and equipment. According to the PNC’s strategic plan for 2009-2014, the challenges it needs to overcome include “a lack of incentives and a career path for officers, deficient training and infrastructure, and a lack of intelligence capabilities, among

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<sup>27</sup> The Taxis Cartel has reportedly developed a broad network of supporters that includes military, police and judicial officials, as well as local and national politicians. This network has enabled it to dominate cocaine smuggling through northern El Salvador. Sergio Arauz, Óscar Martínez, and Efrén Lemus, “El Cartel de Taxis,” *El Faro*, May 16, 2011.

<sup>28</sup> Douglas Farah and Pamela Phillips Lum, *Central American Gangs and Transnational Criminal Organizations*, International Assessment and Strategy Center, February 2013.

<sup>29</sup> The 20,000 estimate for gang members in El Salvador is from: U.N. Office on Drugs and Crime, *Transnational Organized Crime in Central America and the Caribbean: A Threat Assessment*, September 2012. The 35,000 estimate is from PNC figures cited in: Douglas Farah, *The Transformation of El Salvador’s Gangs into Political Actors*, Center for Strategic & International Studies, June 21, 2012. Hereinafter Farah, June 2012.

<sup>30</sup> CRS Interview with Salvadoran National Police officials, December 2010.

<sup>31</sup> “Estiman que Podría Haber Hasta 50 Mil Pandilleros en El Salvador,” *Agencia Mexicana de Noticias*, December 28, 2011; José Luis Sanz and Carlos Martínez, “Aplicaremos el Método de Pacificación que Se Usa en las Favelas de Río,” *El Faro*, January 26, 2012.

<sup>32</sup> Red de Seguridad y Defensa de América Latina (RESDAL), *Índice de Seguridad Pública y Ciudadana en América Latina: El Salvador, Guatemala y Honduras*, 2011.

others.” Corruption, weak investigatory capacity, and an inability to prosecute officers accused of corruption and human rights abuses remain additional barriers to improved police performance.<sup>33</sup>

The PNC is currently being restructured. Minister Munguía Payés and the new PNC director, also a retired general, have removed most officers affiliated with the FMLN from leadership positions. Human rights groups maintain that Funes’ appointment of retired generals to lead the public security ministry and civilian national police violates the Peace Accords and the constitution; the constitutional chamber may rule on that matter.<sup>34</sup> Analysts have also expressed concerns that some of the officers appointed to key positions had been under investigation by the Inspector General of the PNC for ties to organized crime.<sup>35</sup> The arrest and hasty release of José Natividad Luna Pereira (“Chepe Luna”), a fugitive Salvadoran drug trafficker, in Honduras in August 2012 refocused scrutiny on Salvadoran police officers who had been under investigation for allegedly helping Luna (of *Los Perrones* drug trafficking organization) evade capture in the past.<sup>36</sup> Minister Munguía Payés reportedly dismissed ties between Chepe Luna and the PNC officers as “speculation” and the cases against them were closed by the newly appointed PNC Inspector General in September.<sup>37</sup> Another high profile trafficker, Jorge Ernesto Ulloa Sibrian, who reportedly previously enjoyed police protection, has just been arrested in Guatemala.<sup>38</sup>

As in neighboring Guatemala and Honduras, funding and manpower deficiencies within the PNC have led President Funes to task Salvadoran military forces with carrying out a variety of public security functions. In November 2009, President Funes issued an emergency decree, which has been repeatedly extended, deploying military troops to assist police forces in fighting crime on the streets until enough police can be recruited, trained, and equipped to handle the task alone. Thousands of troops are now involved in securing border crossings, carrying out joint patrols with police in high-crime areas, and securing prisons. While the military is generally more well-respected in El Salvador than the police, it only has about 14,000 troops, and its 2011 budget was much lower than that of the PNC (\$124 million as compared to \$233 million).<sup>39</sup> The military, like the police, has been accused of involvement in extrajudicial killings and torture.<sup>40</sup>

In addition to problems within the PNC, the State Department maintains that “inefficiency, corruption, political infighting, and insufficient resources”<sup>41</sup> have hindered the performance of the Salvadoran judiciary. As Salvadoran police and prosecutors are often loathe to work together to build cases, few arrests lead to successful prosecutions. El Salvador’s current criminal conviction

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<sup>33</sup> U.S. Department of State, *2011 Country Report on Human Rights Practices: El Salvador*, May 2012. Hereinafter: State Department, May 2012.

<sup>34</sup> “El Salvador: Admiten Demanda por Militares en Seguridad, *Terra*, March 27, 2012.

<sup>35</sup> See, for example, Fernando de Dios, “Análisis: Qué Esperar de la Nueva Política de Seguridad,” *Contrapunto*, February 12, 2012.

<sup>36</sup> Adriana Beltrán, “Release of Suspected Drug Trafficker in Honduras Raises Questions about Corruption in Honduras and El Salvador,” WOLA, August 10, 2012. For background, see: Héctor Silva Ávalos, “The Well-Placed Friends of ‘Chepe Luna,’” *InsightCrime*, August 22, 2012.

<sup>37</sup> Linda Garrett, *El Salvador Update*, Center for Democracy in the Americas, August-September 2012.

<sup>38</sup> Hector Silva Avalos, “Timing in Arrest of Salvadoran Drug Trafficker Raises Questions,” *Insight Crime*,

<sup>39</sup> RESDAL, 2011, op. cit.

<sup>40</sup> State Department, May 2012.

<sup>41</sup> Ibid.

rate is just 5%. Delays in the judicial process have resulted in severe prison overcrowding, with 25,000 prisoners currently being held in facilities designed to hold roughly 8,000 inmates.<sup>42</sup>

## **Gang Truce**

Upon his appointment, Minister Munguía Payés appeared to back a hardline approach to combating gangs similar to past *mano dura* (firm hand)<sup>43</sup> policies. Munguía Payés has since surprised many analysts by conceding that he lent government support to a former guerrilla fighter and congressman (who was his aid in the defense ministry) and a Catholic bishop who brokered a truce between the Mara Salvatrucha (MS-13) and 18<sup>th</sup> Street (M-18) gangs. In March 2012, Minister Munguía Payés agreed to transfer high-ranking gang leaders to less secure prisons in order to facilitate negotiations for a truce between the gangs. Questions remain surrounding what exactly was negotiated with the gangs, when, and under what circumstances. Until very recently, Minister Munguía Payés had denied his role in facilitating the truce.<sup>44</sup>

Since the time the prison transfers took place, the Salvadoran government reports that homicide rates have declined by some 40%; U.S. law enforcement has not verified those figures.<sup>45</sup> Gang leaders have pledged not to forcibly recruit children into their ranks or perpetrate violence against women, turned in small amounts of weapons, and offered to engage in broader negotiations that could potentially result in a permanent truce.<sup>46</sup> They did not agree to give up control of over their territories. Gang negotiators have said that improving prison conditions and providing more rehabilitation and reintegration programs for gang members will be crucial to maintaining the truce. They hope to obtain donor support for those efforts.<sup>47</sup> The Organization of American States (OAS) has begun monitoring the implementation of the truce and trying to build support for the nascent peace process from civil society, the private sector, and politicians, among others.<sup>48</sup>

In November 2012, gang negotiators proposed the establishment of “peace zones” in municipalities across the country where gangs would stop all crimes in exchange for being able to participate in reinsertion programs. By January 2013, the first five municipalities participating in the “peace zone” plan had been announced, some governed by the FMLN and some by ARENA party. As many as 60 municipalities may want to participate.<sup>49</sup> The government of El Salvador has

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<sup>42</sup> Ibid.

<sup>43</sup> El Salvador’s Congress passed strict *mano dura* (“firm hand”) anti-gang reforms in 2003 and 2004 that outlawed gang membership, enhanced police power to search and arrest suspected gang members, and stiffened penalties for convicted gang members. Changes in legislation were accompanied by the use of joint military and police patrols to round up gang suspects. While these reforms initially provided a way for Salvadoran leaders to show that they were cracking down on gangs, recent studies have cast serious doubts on their effectiveness. Gang roundups exacerbated prison overcrowding. Most youth arrested under *mano dura* provisions have been subsequently released for lack of evidence. In addition, many gang members are now hiding or removing their tattoos, changing their dress, and avoiding the use of hand signals, making them harder to identify and arrest.

<sup>44</sup> Carlos Martinez and Jose Luis Sanz, “The New Truth About the Gang Truce,” *InsightCrime*, September 14, 2012.

<sup>45</sup> “El Salvador’s Funes Boasts Security Progress,” *Latin News Daily Briefing*, January 7, 2013; Email from official from the FBI’s MS-13 National Gang Task Force, December 10, 2012.

<sup>46</sup> WOLA, *El Salvador’s Gang Truce: In Spite of Uncertainty, an Opportunity to Strengthen Prevention Efforts*, July 17, 2012; Randal C. Archibold, “Gangs’ Truce Buys El Salvador a Tenuous Peace,” *New York Times*, August 27, 2012.

<sup>47</sup> CRS interviews conducted in El Salvador, August 20-22, 2012.

<sup>48</sup> Lauren Villagran, “Can a Gang Truce in El Salvador Open the Door to Lasting Peace?” *Christian Science Monitor*, October 24, 2012.

<sup>49</sup> Linda Garrett, *El Salvador Update*, Center for Democracy in the Americas, February 2013.

reportedly said that municipalities that participate in the effort will receive investments from a fund of some \$72 million, although it is as yet unclear where that money will come from.<sup>50</sup> A charitable foundation has been established to coordinate international efforts to support the truce, including the “peace zone” plan. While some have praised the effort, others have expressed doubts about the gangs’ commitment to ending all crimes (including extortion), and the government’s ability to ensure that the “peace zones” do not become havens for lawlessness.<sup>51</sup>

Many, including OAS Secretary General Jose Miguel Insulza, have praised the truce for reducing the homicide rate in El Salvador and effectively saving the lives of thousands of young people.<sup>52</sup> The coordinator of U.N. programs in El Salvador has said that the truce presents a unique window of opportunity for the country to find a long-term, integral solution to violence and criminality.<sup>53</sup> U.S.-based gang experts have formed a Transitional Advisory Group in Support of the Peace Process in El Salvador, while U.S. human rights groups have lent their support to the truce insofar as it provides an opportunity to increase prevention and rehabilitation programs.<sup>54</sup>

The truce is not without its skeptics. Some skeptics have questioned the lack of transparency and changing narrative regarding the government’s role in facilitating the truce.<sup>55</sup> Still others point out that while gang-on-gang homicides have declined, the level of extortion and other violent crimes has remained high.<sup>56</sup> Disappearances and the discovery of clandestine graves also continued in 2012.<sup>57</sup> Apart from that, some analysts maintain that recognizing the gangs as legitimate political actors and continuing to accede to their demands carries enormous risks for the Salvadoran government. For example, should the negotiations collapse, the gangs could emerge even more powerful and organized after taking advantage of less restrictive prison conditions.<sup>58</sup> Skeptics are particularly concerned about the prospects for a loss of government control over security and the rule of law in areas deemed as “safe zones.”

U.S. officials have made few public comments about the truce; in August 2012, U.S. Ambassador to El Salvador, Mari Carmen Aponte reportedly said that the truce had reduced crime, but that policies must “address the root causes [of crime] in order to be effective and for any reduction [in crime] to be sustainable.”<sup>59</sup> While some believe the Treasury Department’s decision to sanction the financial activities of the MS-13 may signify U.S. skepticism of the truce, Ambassador Aponte has said that the decision responded to the activities of the gang in the United States and was made totally independent of the truce.<sup>60</sup> (See “Anti-Gang Efforts and the Designation of the

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<sup>50</sup> “Political Truce Provides Key to Reducing Violence,” *Latin American Weekly Report*, January 24, 2013.

<sup>51</sup> Miriam Wells, “El Salvador ‘Peace Zone’ Launched in Second Phase of Gang Truce,” *InsightCrime*, January 23, 2013.

<sup>52</sup> Organization of American States (OAS), “Secretary General Insulza: ‘the Three Challenges to Democracy in the Region are Inequality, Organized Crime and the Lack of Political Dialogue,’” press release, October 10, 2012.

<sup>53</sup> “ONU: Tregua entre Pandillas es Oportunidad contra la Violencia en El Salvador,” *La Prensa Gráfica*, September 13, 2012.

<sup>54</sup> WOLA, op. cit.

<sup>55</sup> Martinez and Sanz, op. cit.

<sup>56</sup> Miriam Wells, “‘Rising Extortion’ Signals Trouble For El Salvador’s Gang Truce,” *Insight Crime*, March 18, 2013.

<sup>57</sup> Daniel Valencia Cervantes, “Los Desaparecidos que no Importan,” *El Faro*, January 21, 2013.

<sup>58</sup> Douglas Farah, *The Transformation of El Salvador’s Gangs into Political Actors*, Center for Strategic & International Studies, June 2012.

<sup>59</sup> Archibold, op. cit.

<sup>60</sup> Enrique García, “Aponte Reitera que la ‘MS’ es Organización Criminal Transnacional,” *El Mundo*, October 16, 2012.

MS-13 as a Major Transnational Criminal Organization” below.) A State Department Travel Warning for El Salvador issued on January 23, 2012, stated that the truce “contributed to a decline in the homicide rate ... [but] the sustainability of the decline is unclear, and the truce [has] had little impact on robbery, assaults, and other violent crimes.”<sup>61</sup>

## **Prevention and Rehabilitation Efforts**

In recent months, the Funes government has expanded prevention and rehabilitation programs, both as part of its commitments under the Partnership for Growth and in order to support the nascent gang truce.<sup>62</sup> The government supports 69 municipal crime prevention councils around the country and is dedicating more of its prevention resources to support their efforts. The government obtained a \$60 million loan from the World Bank to expand full-day school programs to keep at-risk youth off the streets. It has also launched a temporary youth employment program and a civil protection training program. In order to deal with the dire situation in the country’s prisons, low-risk inmates have been transferred to two new prison farms and the government is working with the private sector and donors to increase rehabilitation and reinsertion programs.

## **Economic Challenges**

El Salvador achieved stability and economic growth in the 1990s following its embrace of a “neo-liberal” economic model that involved cutting government spending, privatizing state-owned enterprises, and, in 2001, adopting the dollar as its national currency. As expected, dollarization led to lower interest rates, low inflation, and easier access to capital markets, but it also took away the government’s ability to use monetary and exchange rate adjustments to cushion the economy from external shocks. After posting strong growth rates in the 1990s, El Salvador’s more moderate growth rates in the 2000s were not high enough to improve living standards among the Salvadoran people, approximately 47% of whom continued to live in poverty in 2010 (slightly lower than in 2001).<sup>63</sup> Emigration reduced rural unemployment and infused some households with extra income in the form of remittances, but has also caused significant social disruptions.

The Funes government is still struggling to boost El Salvador’s economy, which contracted by 3.1% in 2009, largely as a result of the impact of the global financial crisis and U.S. recession. Since the United States is El Salvador’s most important trade and investment partner, the U.S. economic slowdown caused remittances, investment, tourism revenues, and demand for Salvadoran exports to decline. Upon taking office, President Funes called for austerity, emphasizing the need to reduce excess spending, better target subsidies, and combat tax evasion and corruption. He also announced an “Anti-Crisis” plan focused on boosting social spending, constructing new housing, and improving public utilities and road infrastructure. In November 2009, Funes’ efforts to repair the Salvadoran economy were dealt a significant blow when Hurricane Ida and related flooding caused 198 deaths and inflicted millions of dollars in damages to agriculture and infrastructure in the country. In March 2010, President Funes and the IMF

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<sup>61</sup> U.S. Department of State, Bureau of Consular Affairs, *Travel Warning: El Salvador*, January 23, 2013, available at: [http://travel.state.gov/travel/cis\\_pa\\_tw/tw/tw\\_5871.html](http://travel.state.gov/travel/cis_pa_tw/tw/tw_5871.html).

<sup>62</sup> U.S. Department of State, *Partnership for Growth El Salvador-United States, Six Month Scorecard: November 2011-May 2012*, July 2012.

<sup>63</sup> U.N. Economic and Social Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America, 2011*, December 2011.

agreed to a \$790 million package premised on the idea that as the Salvadoran economy recovers, the government will strive to improve tax administration, restrict spending, and reallocate energy subsidies.<sup>64</sup> The IMF agreement paved the way for loans totaling \$600 million from the World Bank and \$450 million from the Inter-American Development Bank. Those loans are supporting anti-poverty efforts, fiscal reform programs, and the creation of an export guarantee fund.

Despite government efforts and support from international donors, the Salvadoran economy has continued to perform poorly as compared to its Central American neighbors. El Salvador posted modest growth in 2010 (1.4%), but hopes that the economy would expand more rapidly in 2011 were dashed after flooding from Tropical Depression 12E caused some \$840 million in damage to roads, infrastructure, and agriculture.<sup>65</sup> GDP growth stood at 1.5% in 2011. The National Assembly's December 2011 enactment of a Funes-backed tax reform package is generating \$150 million in new revenue, but the government is still struggling to reduce its fiscal deficit. Poor export performance prompted 2012 GDP growth of 1.3%, the lowest in Central America.<sup>66</sup> As a result of its slow growth and debt problems, Moody's Investors Service recently downgraded El Salvador's credit rating to three levels below investment grade.<sup>67</sup>

With U.S. support through the Partnership for Growth initiative, the Funes Administration is seeking to attract foreign investment (see "Partnership for Growth Initiative"). As depicted in **Figure 2**, over the past decade or so, foreign direct investment (FDI) in El Salvador has lagged behind other Central American countries and the Dominican Republic. The lack of foreign investment in El Salvador has been attributed to a number of factors, including the country's difficult business climate,<sup>68</sup> public security challenges, and low-skilled labor force that is too expensive to compete with other low-cost producers. After consultations with the private sector, the Funes Administration is seeking to improve the country's legal and regulatory environment, combat extortion and other crimes that affect businesses, and align job training and education programs with private sector demands. Funes is also seeking to boost public-private partnerships. Experts have recommended that El Salvador channel any increases in FDI into higher value-added production so as to take better advantage of the preferential access to the U.S. market

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<sup>64</sup> International Monetary Fund (IMF), "Press Release 10/95: IMF Executive Board Approves US\$790 Million Stand-By Arrangement for El Salvador," March 17, 2010; IMF, *El Salvador: 2010 Article IV Consultation and First Review Under the Stand-By Arrangement*, IMF Country Report No. 10/307, October 2010.

<sup>65</sup> El Salvador is a densely populated and largely deforested country that is vulnerable to natural disasters. Since Hurricane Mitch hit in 1998, El Salvador has experienced a series of natural disasters—two earthquakes in 2001, Tropical Storm Stan (2005), Hurricane Ida (2009), Tropical Storm Agatha (May 2010), and Tropical Depression 12E (October 2011). Each of these disasters caused lives and properties to be lost, damaged roads and infrastructure, and ruined certain crops. While Tropical Depression 12E resulted in fewer deaths than previous disasters, its record rainfall displaced 70,000 people and damaged 80% of the country's road networks. In response to the flooding, President Funes declared a state of emergency on October 14, 2011, and asked for international assistance. On October 24, the U.N. Office for the Coordination of Humanitarian Affairs (OCHA) issued a flash appeal for \$14.8 million in emergency assistance for El Salvador. As of April 2012, funding for the appeal totaled roughly \$6.0 million. Pledges and contributions were also made outside the appeal through bilateral assistance to the government, international organizations, and NGOs, including more than \$605,000 in humanitarian assistance provided by the U.S. government. Analysts are concerned about the government's ability to spend donor assistance efficiently for this disaster given that there have been significant delays in disbursing funds donated after Hurricane Ida.

<sup>66</sup> "El Salvador: Country Report 1st Quarter 2013," *EIU*, accessed March 26, 2013.

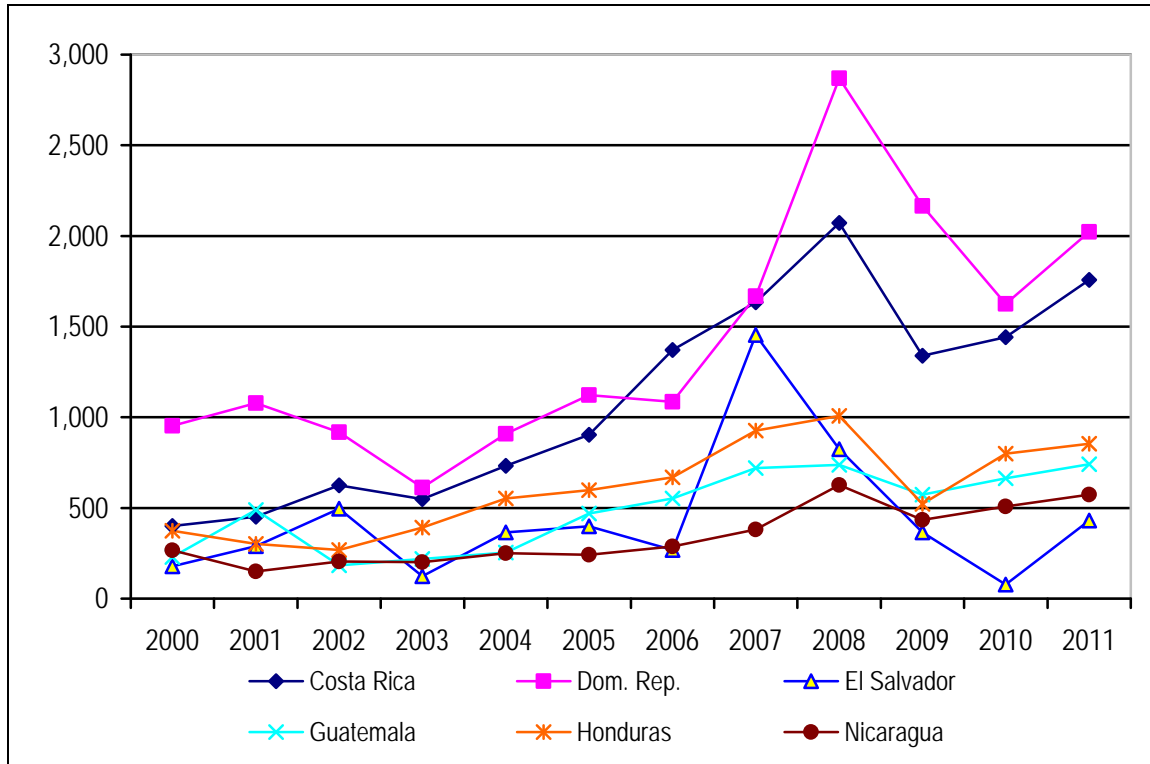
<sup>67</sup> "Moody's Downgrades El Salvador's Rating to Ba3 and Keeps the Outlook at Stable," *Global Credit Research*, November 5, 2012.

<sup>68</sup> El Salvador ranked lowest among the CAFTA-DR countries in the World Bank's 2011 Ease of Doing Business rankings. The World Bank, *Doing Business*, 2011.



afforded by CAFTA-DR.<sup>69</sup> El Salvador (and the other countries in Central America) also signed an association agreement with the European Union in June 2012 that includes a free trade section.

**Figure 2. CAFTA-DR Countries: Net Foreign Direct Investment (2000-2011)**  
(in millions of dollars)



**Source:** United Nations, Economic Commission on Latin America and the Caribbean, *Preliminary Overview of the Economies of Latin America and the Caribbean*, December 2011, p. 107.

**Note:** For small developing economies, spikes in FDI often reflect acquisitions in the financial sector. This is the case for El Salvador in 2007, for example, which reflects Citibank's purchase of Banco Cuscatlán.

## Relations with the United States

Throughout the last few decades, the United States has maintained a strong interest in political and economic developments in El Salvador. During the 1980s, El Salvador was the largest recipient of U.S. military aid in Latin America as its government struggled against the FMLN insurgency. After the 1992 peace accords were signed, U.S. involvement and assistance shifted toward helping successive ARENA governments rebuild democracy and implement market-friendly economic reforms. The United States is the largest supplier of foreign direct investment

<sup>69</sup> See: CRS Report R42468, *The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA DR): Developments in Trade and Investment*, by J. F. Hornbeck.

and among the top suppliers of foreign assistance to El Salvador, as well as the destination for more than 40% of Salvadoran exports. Beyond economic bonds, El Salvador and the United States are linked by significant migratory and cultural ties; close to 2 million Salvadorans currently reside in the United States.<sup>70</sup> During the Saca Administration (2004-2009), El Salvador cooperated in counternarcotics operations, supported the U.S. coalition forces in Iraq, and implemented CAFTA-DR.

Despite some concerns that the 2009 FMLN presidential victory could have complicated U.S.-Salvadoran relations, bilateral relations have remained friendly since Mauricio Funes took office in June 2009. During his inauguration, which was attended by then-Secretary of State Hillary Clinton, Funes asserted his desire to “broaden, strengthen, and renew” El Salvador’s relations with the United States.<sup>71</sup> While some FMLN officials have made anti-American remarks, Funes has repeatedly referred to the United States as a strategic partner. High-level contacts between Funes and Obama Administration officials culminated in President Funes’ first visit to the White House, which took place on March 8, 2010. After that meeting, President Obama thanked President Funes for his help in resolving the political crisis in Honduras<sup>72</sup> and expressed “how interested the United States is in continuing to be an equal partner with El Salvador.”<sup>73</sup>

In 2011, President Obama highlighted the importance of U.S.-Salvadoran relations by selecting El Salvador as the only Central American country to be included in his March 2011 tour of Latin America. During a March 22, 2011, joint press conference with President Funes, President Obama pledged to continue “working as partners, with El Salvador in the lead, to confront the hurdles to growth and development.”<sup>74</sup> He announced a number of initiatives, including the Partnership for Growth (PFG); the Crossroads Fund<sup>75</sup> for border infrastructure projects; and the Central American Citizen Security Partnership.<sup>76</sup> The Salvadoran government has reciprocated by, for example, sending a small contingent of non-combatant troops to Afghanistan in August 2011 and agreeing to accept detainees who had been held at Guantánamo Bay, Cuba, in April 2012.

U.S.-Salvadoran cooperation has continued since that time despite tension that arose during the aforementioned constitutional crisis. U.S.-Salvadoran efforts and U.S. assistance have gradually

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<sup>70</sup> Seth Motel and Eileen Patten, *Statistical Portrait of Hispanics in the United States, 2011*, Pew Research Center, February 15, 2013. Hereinafter Motel and Patten, 2013.

<sup>71</sup> Mauricio Funes, “Discurso Toma de Posesión,” *Gobierno de la Republica de El Salvador*, June 1, 2009.

<sup>72</sup> For background, see CRS Report R41064, *Honduran Political Crisis, June 2009-January 2010*, by Peter J. Meyer.

<sup>73</sup> The White House, Office of the Press Secretary, “Remarks by President Obama and President Funes of El Salvador after Meeting,” press release, March 8, 2010.

<sup>74</sup> The White House, Office of the Press Secretary, “Remarks by President Obama and President Funes of El Salvador in Joint Press Conference,” press release, March 22, 2011.

<sup>75</sup> The U.S. government has contributed \$5 million towards the establishment of a Crossroads Fund within the Inter-American Development Bank (IADB) that will provide grants for cross-border infrastructure projects within Central America aimed at boosting regional integration and competitiveness. The Fund has received a total of \$22 million in commitments. U.S. Department of the Treasury, “Fact Sheet: the Crossroads Fund,” press release, April 13, 2012.

<sup>76</sup> Launched in March 2011, the Central American Citizen Security Partnership encompasses all U.S. federal efforts to help combat drug trafficking, gangs, and organized crime in the sub-region. U.S. efforts to support the partnership include: U.S. drug demand reduction programs and domestic anti-gang and counterdrug efforts, law enforcement and military cooperation with partner governments, bilateral and regional assistance provided through CARSI, and U.S. involvement in the Group of Friends of Central America donors group. Formed in 2011, the Group of Friends is working with Central American governments and the Central American Integration System (SICA) to implement a Central American Security Strategy. The White House, Office of the Vice President, “Fact Sheet: The Central American Citizen Security Partnership,” press release, March 6, 2012.

been reoriented to focus on implementing the goals of the PFG initiative: improving productivity and reducing insecurity in El Salvador. Bilateral relations received a boost in mid-June 2012 when the U.S. Senate approved the long-stalled nomination of Mari Carmen Aponte to serve as U.S. Ambassador to El Salvador.<sup>77</sup> In September 2012, both governments celebrated the completion of El Salvador's first MCC compact; a second compact proposal is currently being developed by the Salvadoran government. In October 2012, the United States donated three light helicopters to the Salvadoran Air Force to support efforts against organized crime and to aid in disaster relief.

## **Partnership for Growth Initiative**

El Salvador is one of four countries that have been selected to participate in the Obama Administration's Partnership for Growth Initiative, which seeks to foster sustained economic growth and development in top-performing low-income countries.<sup>78</sup> PFG involves greater collaboration between the donor and recipient countries than traditional U.S. assistance programs, but does not necessarily portend an increase in U.S. foreign aid. As a first step of implementing the PFG in El Salvador, a binational team conducted a diagnostic study published in July 2011 that identified the two greatest constraints on growth in the country as crime and insecurity and a lack of competitiveness in the "tradables"<sup>79</sup> sector.<sup>80</sup>

On November 3, 2011, the two governments signed a 2011-2015 Joint Country Action Plan officially launching the PFG.<sup>81</sup> The Action Plan includes detailed pledges by the U.S. and Salvadoran governments on how they intend to address the aforementioned growth constraints. Progress towards meeting each of 20 shared goals will be mutually evaluated and then made public every six months. According to the plan, the U.S. government aims to help El Salvador address crime and insecurity by strengthening judicial sector institutions and supporting crime and violence prevention programs. The U.S. government also states its intention to help El Salvador improve its infrastructure (physical, human, and financial) and business climate in order to attract investment and boost competitiveness. Both governments aim to involve the private sector and other donors in the PFG. As such, President Funes has formed a Growth Council, composed of government and business officials, to improve public-private cooperation.

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<sup>77</sup> Aponte's nomination was approved by a voice vote after Senators voted 62-37 to invoke cloture (limit debate) on her nomination. J. Anderson, "Aponte Confirmed as Ambassador to El Salvador After Test Vote Succeeds," *CQ Today*, June 14, 2012. Aponte had been a 2010 recess appointment as Ambassador to El Salvador by President Obama but to continue in that position, her ambassadorship required Senate confirmation in 2011. When the Senate failed to invoke cloture on her nomination in December 2011, Aponte had to leave her post. On December 12, 2011, the Senate voted 49-37 against a motion to proceed with consideration of Mari Carmen Aponte as U.S. Ambassador to El Salvador. Sixty votes would have been needed to invoke cloture. Critics had expressed concerns about Aponte's past relationship with a Cuban man suspected as having ties to Cuba's intelligence service and about an editorial she wrote in support of gay rights in El Salvador in June 2011. Supporters argued that they had no concerns about Ms. Aponte's past relationship and that she had strengthened U.S.-Salvadoran relations in the time that she had served as Ambassador. J. Anderson, "Senate OKs One Diplomatic Pick, Rejects Cloture on Another," *CQ Today*, Dec. 12, 2011.

<sup>78</sup> The principles behind the PFG Initiative are to (1) focus on broad-based economic growth; (2) select countries with demonstrated performance and political will; (3) use joint decision-making and prioritization of activities; (4) support catalytic policy change and institutional reform; (5) leverage U.S. government engagement for maximum impact; and (6) emphasize partnership and country ownership.

<sup>79</sup> "Tradables" refers to products that are or can be traded internationally.

<sup>80</sup> U.S. Department of State, *Partnership for Growth: El Salvador Constraints Analysis*, July 19, 2011.

<sup>81</sup> U.S. Department of State, *Partnership for Growth: El Salvador-United States Joint Country Action Plan 2011-2015*, November 2011, [http://photos.state.gov/libraries/elsalvador/92891/octubre2011/Joint\\_Country\\_Action\\_Plan.pdf](http://photos.state.gov/libraries/elsalvador/92891/octubre2011/Joint_Country_Action_Plan.pdf).

A year into the implementation of the Joint Country Action Plan, the U.S. and Salvadoran governments reported that 17 of 20 bilateral goals were “on track” to being met.<sup>82</sup> However, issues such as promoting the use of extraditions as a crime control mechanism, advancing civil service reform, and attracting FDI in El Salvador have fallen behind schedule. Advances included:

### **Reducing Crime and Insecurity**

- the enactment of an access to public information law and the drafting of an asset forfeiture law;
- the establishment of an elite anti-gang unit in the PNC, the expansion of U.S. funded model precinct programs, the provision of community policing training to more than 10,000 police, and justice sector training provided to 389 officials (including public defenders);
- the inauguration of a Family Law Center and Mediation Center for child victims of domestic Violence;
- the creation of one task force to combat crimes against small businesses and progress towards creating another to combat crime on public transit;
- the expansion of temporary employment, training, and job placements programs for at-risk youth; the expansion of full-time schools nationwide; and the opening of low-security prison farms for low-risk inmates.

### **Improving Productivity**

- the approval of legislation backed by the private sector that is aimed at making it easier to invest in El Salvador and to better regulate the free trade zones and the presentation of a law to boost private-public partnerships;
- the progress made in the Comalapa airport modernization project and the National Assembly approval of measures to support its financing;
- the provision of job training and placement assistance that helped 6,000 job seekers find employment; and,
- the start of programs aimed at improving the government’s fiscal transparency, using results-based budgeting, and reducing tax evasion.<sup>83</sup>

## **U.S. Foreign Aid**

Bilateral funding to El Salvador amounted to roughly \$29.8 million in FY2011, not including disaster assistance provided in the wake of a tropical storm that hit the country in October 2011. El Salvador is receiving an estimated \$28.2 million in U.S. aid in FY2012. Despite the austere budget environment, the Administration requested \$41.8 million in bilateral assistance for El Salvador for FY2013, a large increase compared to other countries in Latin America and the

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<sup>82</sup> U.S. Department of State, *Partnership for Growth El Salvador-United States, Six Month Scorecard: May 2012-November 2012*, available at: [http://photos.state.gov/libraries/elsavador/92891/Noviembre2012/PFG%20scorecard%20II%20Final%20\\_English\\_.pdf](http://photos.state.gov/libraries/elsavador/92891/Noviembre2012/PFG%20scorecard%20II%20Final%20_English_.pdf).

<sup>83</sup> Ibid.

Caribbean (see **Table 1**). However, the Budget Control Act of 2011 (P.L. 112-25), as amended by the American Taxpayer Relief Act of 2012 (H.R. 8/P.L. 112-240, signed into law January 2, 2013), requires an across-the-board reduction of about 5% of the annualized funding in the FY2013 continuing resolution (P.L. 113-6), according to the Office of Management and Budget.<sup>84</sup> Given uncertainty over the country allocations that would be used as the base line to calculate the sequestration, CRS is unable to calculate post-sequestration funding levels for El Salvador. A possible rough estimate, however, might be determined by reducing FY2012 estimates by 5%.

As previously mentioned, U.S. bilateral assistance to El Salvador is being realigned to focus on reducing insecurity and boosting productivity in the country.<sup>85</sup> As part of that effort, the U.S. Agency for International Development (USAID) is increasing funding for institutional strengthening, violence prevention, and private sector competitiveness programs; in contrast, health programs are ending and education programs are being reoriented. Moving forward, USAID’s basic education programs will focus on in-school and out-of-school youth in high-crime communities, while tertiary programs will aim to align post-secondary training and education programs with current workforce demands.

**Table 1. U.S. Assistance to the El Salvador: FY2011-FY2013**

(millions of dollars)

<b>Account</b>	<b>FY2011 (Actual)</b>	<b>FY2012 (Estimate)</b>	<b>FY2013 (Request)</b>
<b>DA</b>	23.9	23.9	39.0
<b>ESF</b>	0.0	2.0	0.0
<b>FMF</b>	1.3	1.3	1.8
<b>GHP</b>	3.1	0.0	0.0
<b>IMET</b>	1.5	0.0	0.0
<b>NADR</b>	0.0	1.0	0.0
<b>TOTAL</b>	<b>29.8</b>	<b>29.2</b>	<b>41.8</b>

**Sources:** U.S. Department of State, *Congressional Budget Justification for Foreign Operations: FY2013*.

**Notes:** GHP= Global Health Program (includes total funds provided by the U.S. Agency for International Development and the State Department); DA=Development Assistance; ESF=Economic Support Fund; FMF=Foreign Military Financing; IMET=International Military Education and Training; NADR=Non-proliferation, Antiterrorism, Demining, and Related Programs.

El Salvador receives some foreign assistance beyond the bilateral funds appropriated annually through the foreign operations budget. There are approximately 73 U.S. Peace Corps volunteers serving in El Salvador who are engaged in projects related to agro-forestry and environmental education, community organization and economic development, rural health and sanitation, and youth development. USAID’s Office of Foreign Disaster Assistance (OFDA) provides assistance

<sup>84</sup> The Office of Management and Budget, OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2013, March 1, 2013.

[http://www.whitehouse.gov/sites/default/files/omb/assets/legislative\\_reports/fy13ombjsequestrationreport.pdf](http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/fy13ombjsequestrationreport.pdf).

<sup>85</sup> U.S. Department of State, *FY2013 Congressional Budget Justification for Foreign Operations*.

in response to natural disasters, including, most recently, more than \$605,000 provided through early December 2011 in response to Tropical Depression 12E.<sup>86</sup>

El Salvador also benefits from regional trade capacity building assistance and regional anti-gang assistance funded through global funds appropriated to the State Department's Bureau of International Narcotics and Law Enforcement. El Salvador also receives assistance under the Central America Regional Security Initiative<sup>87</sup> (CARSI, formerly known as Mérida-Central America), a package of counternarcotics and anticrime assistance for the region. As currently formulated, CARSI provides equipment, training, and technical assistance to build the capacity of Central American institutions to counter criminal threats. In addition, CARSI supports community-based programs designed to address underlying economic and social conditions that leave communities vulnerable to those threats. Since FY2008, Congress has appropriated nearly \$500 million for Central America through Mérida/CARSI. According to the Government Accountability Office (GAO), between FY2008 and FY2011, El Salvador received some \$58.8 million in CARSI assistance (17% of the funds appropriated).<sup>88</sup> The Obama Administration requested an additional \$107.5 million for CARSI in FY2013.

## Millennium Challenge Corporation (MCC)

In November 2006, El Salvador signed a five-year, \$461 million compact with the Millennium Challenge Corporation (MCC) to develop its northern border region, where more than 53% of the population lives in poverty. The compact included: (1) a \$68.5 million **productive development project** to provide technical assistance and financial services to farmers and rural businesses; (2) an \$89.1 million **human development project** to strengthen education and training and improve public services in poor communities; and (3) a \$268.8 million **connectivity project** to rehabilitate the Northern Transnational Highway and some secondary roads.<sup>89</sup> The MCC compact was designed to complement the CAFTA-DR and regional integration efforts and is expected to benefit more than 700,000 Salvadorans. It officially ended on September 20, 2012.

U.S. and Salvadoran officials have touted the MCC compact's effects on development and investment in El Salvador's northern border region. According to MCC, the compact enabled the construction or rehabilitation of 220 kilometers (137 miles) of roads and 23 bridges, which Salvadoran officials maintain has helped that area attract \$57 million in private investment.<sup>90</sup> The project also provided electricity to 28,000 families; connected 6,300 households to potable water sources; provided vocational training to 12,000 people; and gave supplies and technical assistance to 17,000 small-scale producers.<sup>91</sup> The Salvadoran government complemented MCC investments in each of the project areas, investing \$70 million in road construction and rehabilitation alone.

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<sup>86</sup> U.S. Agency for International Development (USAID), "Fact Sheet #5, Fiscal Year 2012: Central America - Floods," press release, December 7, 2011.

<sup>87</sup> CRS Report R41731, *Central America Regional Security Initiative: Background and Policy Issues for Congress*, by Peter J. Meyer and Clare Ribando Seelke.

<sup>88</sup> Government Accountability Office (GAO), *Status of Funding for the Central America Regional Security Initiative*, January 30, 2013.

<sup>89</sup> The Compact also included \$28 million for program administration and \$6 million for monitoring and evaluation.

<sup>90</sup> Ambassador of El Salvador to the United States Francisco Altschul, "Salvadoran Ambassador Francisco Altschul: The Case for a new MCC Compact with El Salvador," *The Hill*, October 1, 2012. Hereinafter Altschul, October 2012.

<sup>91</sup> Millennium Challenge Corporation (MCC), "MCC's Compact with El Salvador," September 2012.

On December 15, 2011, the MCC Board announced that El Salvador would be eligible to develop a proposal for a second compact. According to El Salvador's then-Ambassador to the United States Francisco Altschul, the proposal for a second compact is going to focus on improving ports and airports; increasing access to water, electricity, and education; and developing a tourism and communications hub in the country's southern coastal region.<sup>92</sup> The MCC Board voted to keep El Salvador eligible to submit a compact when it met in December 2012 and the MCC is currently providing \$3 million to assist El Salvador with compact development. The compact proposal is expected to be finalized in 2013.

## Counter-Narcotics Cooperation

Although El Salvador is not a producer of illicit drugs, it does serve as a transit country for narcotics, mainly cocaine and heroin, cultivated in the Andes and destined for the United States via land and sea. On September 16, 2011, President Obama included El Salvador on the list of countries designated as "major" drug-producing or "drug-transit" countries, for a second time.<sup>93</sup> A country's inclusion in the list does not mean that its antidrug efforts are inadequate. However, corruption, a lack of internal controls in law enforcement agencies, and inadequate manpower and equipment continue to hinder bilateral efforts.<sup>94</sup>

In 2012, Salvadoran officials seized 327 kilograms of cocaine, 453 kilograms of marijuana, and \$2.0 million in illicit cash. Both the Anti-Narcotics Division (DAN) of the PNC and the military achieved fewer "operational results" in 2012 as compared to prior years due to staff turnover and shortages.<sup>95</sup> However, the DAN and the Salvadoran Navy continued to coordinate with their U.S. counterparts. U.S. assistance focused on improving the interdiction capabilities of Salvadoran law enforcement and military agencies, particularly the joint military-police task force "Grupo Cuscatlán;" and supporting the attorney general's National Electronic Monitoring Center, an entity for which the U.S. government provided \$5 million to establish that opened in 2012.

Comalapa International Airport in El Salvador serves as one of two cooperative security locations (CSLs) for U.S. anti-drug forces in the hemisphere. The CSL extends the reach of detection and monitoring aircraft into the Eastern Pacific drug smuggling corridors. Although the U.S. lease on the airport was set to expire in 2010, El Salvador signed an agreement in April 2009 that will allow the United States to continue using Comalapa for an additional five years.<sup>96</sup> El Salvador is also the home of the U.S.-backed International Law Enforcement Academy (ILEA), which provides police management and training to officials from all of the countries of the region.

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<sup>92</sup> Altschul, October 2012.

<sup>93</sup> The White House, Office of the Press Secretary, "Presidential Determination on Major Illicit Drug Transit or Major Illicit Drug Producing Countries for Fiscal Year 2013," press release, September 14, 2012.

<sup>94</sup> U.S. Department of State, Bureau of International Narcotics and Law Enforcement Affairs, *2013 International Narcotics Control Strategy Report*, March 12, 2013.

<sup>95</sup> Ibid.

<sup>96</sup> "Amplián Permanencia de Centro Antidrogas de EU en El Salvador," *Agencia Mexicana de Noticias*, April 2, 2009.

## **Anti-Gang Efforts and the Designation of the MS-13 as a Major Transnational Criminal Organization**

Since the mid-2000s, several U.S. agencies have been actively engaged on the law enforcement and preventive side of dealing with Central American gangs; many U.S. anti-gang efforts in Central America have begun in El Salvador.<sup>97</sup> In 2004, the Federal Bureau of Investigation (FBI) created an MS-13 Task Force to improve information-sharing and intelligence-gathering among U.S. and Central American law enforcement officials. The FBI established a vetted Transnational Anti-Gang Unit in El Salvador in 2007. The Bureau of Immigrations and Customs Enforcement (ICE) within the Department of Homeland Security created a national anti-gang initiative called “Operation Community Shield” in 2005. In addition to arresting suspected gang members in the United States, ICE began coordinating anti-gang efforts with its office in El Salvador and, in collaboration with the FBI, has begun providing detailed criminal history information on gang deportees to Salvadoran authorities.<sup>98</sup>

Since FY2008, the State Department has funded anti-gang programs in El Salvador with support from the Mérida Initiative/Central American Regional Security Initiative (CARSI) and a line item in the Foreign Operations budget designated for “Criminal Youth Gangs” for which roughly \$35 million was provided for country and regional efforts between FY2008 and FY2012. A Regional Gang Advisor based in El Salvador has coordinated Central American gang programs, including model police precincts and a school-based, law enforcement-led prevention program, since January 2008.<sup>99</sup> USAID conducted a comprehensive gang assessment in 2005 and has since supported a variety of prevention programs for at-risk youth, municipal crime prevention projects, and community policing efforts. USAID-El Salvador recently announced a \$42 million public-private partnership focused on crime prevention in El Salvador and \$2 million in grant awards to municipalities that have designed innovative crime prevention projects.

On October 11, 2012, the Treasury Department designated the MS-13 as a significant transnational criminal organization whose assets will be targeted for economic sanctions pursuant to Executive Order (E.O.) 13581.<sup>100</sup> Issued in July 2011 as part of the Obama Administration’s National Strategy to Combat Transnational Organized Crime, E.O. 13581 enables the Treasury Department to block the assets of members and associates of designated criminal organizations and prohibit U.S. citizens from engaging in transactions with them.<sup>101</sup> The Treasury Department worked with ICE to build evidence to support the designation of the MS-13 based on the gangs’ involvement in “drug trafficking, kidnapping, human smuggling, sex trafficking, murder,” and other serious criminal offenses that threaten U.S. and Central American citizens.

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<sup>97</sup> For background, see: CRS Report RL34112, *Gangs in Central America*, by Clare Ribando Seelke.

<sup>98</sup> Embassy of the United States in San Salvador, El Salvador, “El Salvador Signs CHIP,” press release, May 9, 2012.

<sup>99</sup> Regional anti-gang efforts have focused on six key areas: investigative capacity, legal capacity, intelligence capacity, community policing, prevention, and prisons.

<sup>100</sup> The criteria established for declaring a transnational criminal organization pursuant to Executive Order 13581 are available at: <http://www.whitehouse.gov/the-press-office/2011/07/25/executive-order-blocking-property-transnational-criminal-organizations>. U.S. Department of Treasury, “Treasury Sanctions Latin American Criminal Organization,” press release, October 11, 2012.

<sup>101</sup> The first four criminal organizations that received Transnational Criminal Organization (TCO) designations were: the Brother’s Circle, the Camorra, Los Zetas, and the Yakuza. See: The White House, Office of the Press Secretary, Executive Order 13581--Blocking Property of Transnational Criminal Organizations,” July 25, 2011.



While there is evidence that some MS-13 cliques in the Washington, DC, area collaborate with groups based in El Salvador, some analysts maintain that transnational collaboration is not the norm for the MS-13.<sup>102</sup> Salvadoran officials seemed surprised by the designation, with President Funes asserting that U.S. officials may be “overestimating the economic risk or financial risk resulting from the criminal actions of the MS.”<sup>103</sup> He and Minister of Justice and Public Security Munguía Payés have pledged to continue supporting efforts in the peace process involving MS-13 and M-18 despite the designation. In response, U.S. officials have stood by the TCO designation, asserting that it will provide law enforcement with additional tools to advance domestic and international anti-gang efforts.<sup>104</sup>

## Migration Issues

The United States is home to close to 2 million Salvadoran-born migrants.<sup>105</sup> The movement of large numbers of poor Salvadorans to the United States has eased pressure on El Salvador’s social service system and labor market while providing the country with substantial remittances that constitute as much as 17% of the country’s GDP.<sup>106</sup>

Following a series of earthquakes in El Salvador in 2001 and a determination that the country was temporarily incapable of handling the return of its nationals, the U.S. government granted Temporary Protected Status (TPS) to an estimated 212,000 eligible Salvadoran migrants. TPS has been extended several times, and is currently scheduled to expire in September 2013.

Nonetheless, many Salvadoran migrants continue to be deported from the United States, including 18,870 in FY2011, 47% of whom were deported on criminal grounds.<sup>107</sup> The United States is working with the Salvadoran government in a joint effort to improve the deportation process. In December 2009, a bi-national working group consisting of migration authorities from both countries was formed in Washington, DC. Two of the group’s goals are to expedite the deportation process in order to avoid immigrants spending unnecessary time in U.S. detention centers and to address more general concerns about the current deportation process.<sup>108</sup> On May 9, 2012, El Salvador became the first country in the world to receive more complete criminal history information on U.S. deportees, in this case gang members, through the FBI’s Criminal History Information Program (CHIP).<sup>109</sup>

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<sup>102</sup> Geoffrey Ramsey, “Tracking El Salvador’s Mara Salvatrucha in Washington, DC,” *InSight Crime*, October 12, 2012.

<sup>103</sup> Geoffrey Ramsey, “El Salvador President: US 'Overestimating' MS-13,” *InSight Crime*, October 11, 2012.

<sup>104</sup> Garrett, October 2012.

<sup>105</sup> Motel and Patten, 2013.

<sup>106</sup> U.S. Department of State, *Partnership for Growth: El Salvador Constraints Analysis*, July 19, 2011.

<sup>107</sup> Information provided to CRS by the Department of Homeland Security, Immigration and Customs Enforcement, Office of Enforcement and Removal Operations.

<sup>108</sup> Grupo de Trabajo Binacional El Salvador - Estados Unidos Verifica Proceso de Deportación, Ministerio de Relaciones Exteriores de El Salvador, January 12, 2010.

<sup>109</sup> U.S. Department of State, Embassy in San Salvador, “El Salvador Signs CHIP,” May 9, 2012.

## **U.S. Trade and CAFTA-DR<sup>110</sup>**

The United States is El Salvador's main trading partner, purchasing 45% of its exports and supplying close to 39% of its imports. More than 300 U.S. companies currently operate in El Salvador, many of which are based in the country's 13 free trade zones. Since the 1980s, El Salvador has benefitted from preferential trade agreements, such as the Caribbean Basin Initiative and later the Caribbean Basin Trade Partnership Act (CBTPA) of 2000, which have provided some of its exports, especially apparel and related items, duty-free entry into the U.S. market. As a result, the composition of Salvadoran exports to the United States has shifted from agricultural products, such as coffee and spices, to apparel and textiles. Since the expiration of global textile quotas on December 31, 2004, Salvadoran apparel producers have had trouble competing with goods from cheaper Asian producers.

On December 17, 2004, despite strong opposition from the FMLN, El Salvador became the first country in Central America to ratify the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR). El Salvador was also the first country to pass the agreement's required legislative reforms, implementing CAFTA-DR on March 1, 2006. Since that time, the volume of U.S.-Salvadoran trade has tended to follow trends in growth rates in the United States, with a variety of factors inhibiting the performance of Salvadoran exports vis-à-vis the other CAFTA-DR countries. Those factors have included a continued dependence on the highly competitive apparel trade, low levels of investment, public security problems, and broader governance concerns. According to the July 2011 PFG assessment, a lack of competitiveness among firms in El Salvador that produce internationally traded goods has prevented the country from enjoying the full benefits of CAFTA-DR. The study found that El Salvador may be "missing eight percentage points of GDP compared to CAFTA colleagues" due to its productivity constraints. Low productivity may be due, in part, to the country's low level of human capital.

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<sup>110</sup> CRS Report R42468, *The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA DR): Developments in Trade and Investment*, by J. F. Hornbeck.