



El Salvador: Political, Economic, and Social Conditions and U.S. Relations

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Summary

Throughout the last few decades, the United States has maintained a strong interest in El Salvador, a small Central American country with a population of 7.2 million. During the 1980s, El Salvador was the largest recipient of U.S. aid in Latin America as its government struggled against the Farabundo Marti 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 the government rebuild democracy and implement market-friendly economic reforms.

Mauricio Funes of the FMLN was inaugurated to a five-year presidential term in June 2009. Funes defeated Rodrigo Ávila of the conservative Nationalist Republican Alliance (ARENA) in a close election in March 2009, marking the first FMLN presidential victory and the first transfer of political power between parties since the end of El Salvador's civil war. Funes' victory followed strong showings by the FMLN in the January 2009 municipal and legislative elections, in which the party won a plurality of the seats in the National Assembly and the largest share of the municipal vote.

President Funes still has relatively high approval ratings (65% in August 2011), but faces a number of political, economic, and social challenges. The National Assembly is fragmented, which means that Funes has to form coalitions with other parties in order to advance his legislative agenda. Some analysts predict that legislative progress could stall in advance of the March 2012 legislative elections in which ARENA seeks to recoup popular support vis-à-vis the FMLN and the Grand Alliance for National Unity (GANU), a new party formed in October 2009 by ARENA dissidents. The global financial crisis and U.S. recession negatively impacted El Salvador's economy, increasing the country's already widespread poverty. A three-year \$790 million agreement signed with the International Monetary Fund (IMF) in March 2010 is helping support economic recovery, but will constrain the Funes' government's future fiscal policies. In addition to these political and economic challenges, El Salvador's violent crime rates remain among the highest in the world and still need to be addressed.

Maintaining close ties with the United States has been a primary foreign policy goal of successive Salvadoran governments. Although some Members of Congress expressed reservations about working with an FMLN administration, relations between El Salvador and the United States have remained friendly. During a two-day visit to El Salvador in March 2011, President Barack Obama praised President Funes' "courageous work to overcome old divisions in Salvadoran society and to show that progress comes through pragmatism and building consensus." Both leaders pledged to work together, in concert with the private sector, to boost economic growth in El Salvador through the new Partnerships for Growth initiative and to more effectively ensure citizen security. U.S. bilateral assistance, which totaled an estimated \$29.8 million in FY2011, as well as assistance provided through the Central American Regional Security Initiative (CARSI) is supporting those bilateral goals. The Administration requested \$35.5 million in aid for El Salvador for FY2012.

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Political, Economic and Social Conditions

FMLN Victory

On June 1, 2009, Mauricio Funes of the leftist Farabundo Martí National Liberation Front (FMLN), a party that was formerly an anti-government 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.¹ 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 a 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.²

Funes' presidential victory is 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.³ 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 2008.⁴

¹ 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.

² Maureen Meyer, "Election Season in El Salvador," *Washington Office on Latin America*, January 15, 2009.

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

⁴ 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," July 2010; World Bank, *World Development Indicators*; Economist Intelligence Unit.; U.N. Economic Commission for Latin America and the Caribbean.

President Funes and the Major Challenges Facing his Administration

Since the election, President Funes has pursued moderate policies, which has caused periodic friction between him and more radical members of his party, including Vice President Salvador Sánchez Cerén. President Funes has stated that he seeks to emulate former President Lula da Silva of Brazil, a leader who instituted social welfare programs while advancing market-oriented economic policies. According to observers, Funes' cabinet includes competent leaders from a

variety of ideological backgrounds. President Funes has also created a permanent Economic and Social Council, composed of leaders from business, academia, churches, unions, government, and popular organizations, to advise his government. Funes has generally been able to secure legislative support for his initiatives from the FMLN; the Grand Alliance for National Unity (GANU) party, a dissident faction that split from ARENA in October 2009; and the center-right National Conciliation Party (PCN). While the Funes Administration has restored diplomatic relations with Cuba, it has not aligned itself with the government of Hugo Chávez in Venezuela.

President Funes approval rating has rebounded (to 65% in August 2011⁵) after dipping earlier this summer, but analysts remain divided over how well his government is performing. Funes lost some popular support after hastily signing a June 2011 decree, which was repealed in July after protests from Salvadoran and international civil society groups, that would have constrained the independence of the reformist justices on the Constitutional Chamber of the Supreme Court.⁶ Many have credited Funes' pragmatic approach to governance with helping his administration secure much-needed support from the International Monetary Fund (IMF) and international donors. Others have expressed concerns, however, that he may be straying too far away from his FMLN base, particularly since forming a legislative alliance with rightist parties.⁷ Similarly, while some credit the Funes Administration with adopting a more comprehensive approach to public security than its predecessors, others maintain that the government has struggled to respond to the country's security challenges without resorting to repressive policies.⁸ The Funes government has had to tread lightly on human rights issues since May 2011 when a Spanish judge charged 20 former Salvadoran military officers for their roles in the 1989 massacre of six Jesuit priests (five Spanish citizens), their housekeeper, and her daughter at the UCA. Should Spain formally request the extradition of the ex-officers that have been located in El Salvador, the Salvadoran Supreme Court will have to decide whether to comply.⁹

⁵ "Country Report: El Salvador," *Economist Intelligence Unit (EIU)*, September 2011.

⁶ Since their installation in 2009, the five justices on the Constitutional Chamber have angered politicians from across El Salvador's political spectrum by ruling in favor of independent candidacies, challenging the opacity of the discretionary budget of the Presidency, and deciding that the National Conciliation Party (PCN) and the Christian Democratic Party (PDC) did not garner enough votes in 2004 to remain registered as political parties. Sergio Arauz, Efren Lemus y Gabriel Labrador, "Funes Avaló Decreto de la Derecha que Amarra a Sala de lo Constitucional," *El Faro*, June 3, 2011; Due Process of Law Foundation (DPLF), "DPLF and 71 other NGOs Send Letter to Salvadoran Authorities," press release, June 30, 2011. The letter is available in English at: <http://www.dplf.org/uploads/1310405172.pdf>.

⁷ Council on Hemispheric Affairs (COHA), *Is El Salvador's First Left-Leaning President Changing the Country's Internal Political Realities for the Better? Are U.S. Policy Makers About to Make a Major Mistake?*, February 2010.

⁸ Adriana Beltran, *Stronger Than the Iron Fist: Funes Administration Attempts a Different Approach to Crime and Violence in El Salvador*, Washington Office on Latin America (WOLA), March 18, 2011; Linda Garrett, *Expectations for Change and Challenges of Governance: The First Year of President Mauricio Funes*, Center for Democracy in the Americas, June 2010.

⁹ The 1989 Jesuit massacre marked one 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 has been investigating the massacre since 2009, however, based on the principle of universal jurisdiction for human rights abuses and the Spanish origin of five of the priests. As part of that investigation, the judge charged 20 former Salvadoran military officials with involvement in the crime and issued "detention requests" through INTERPOL in early August 2011 for ten of the officials. Nine of the ten were in El Salvador; (the tenth was deceased). On August 24, 2011, El Salvador's Supreme Court ruled that the nine military officials could not be detained until a formal extradition request was received; the accused officers who had turned themselves into a military garrison in El Salvador were released. The (continued...)

Rebuilding a Faltering Economy

The Funes government is struggling to boost El Salvador's economy, which contracted by 3.1% in 2009, largely as a result of the U.S. recession. Since the United States is El Salvador's most important trading and investment partner, the U.S. economic slowdown caused remittances, investment, tourism revenues, and demand for Salvadoran exports to decline in 2009. According to El Salvador's Central Bank, remittances, which contribute some 16% of the country's Gross Domestic Product (GDP), fell by 8.5% in 2009 as compared to the year before.¹⁰ In November 2009, Funes' efforts to repair the Salvadoran economy were dealt a significant blow when Tropical Storm Ida and related flooding caused 190 deaths and wrought millions of dollars in damages to agriculture and infrastructure in the country. By the second quarter of 2010, however, an uptick in remittances, domestic demand, and exports—particularly sales of non-traditional products—had helped the Salvadoran economy begin to expand. El Salvador posted a modest recovery in 2010, with GDP growth of 1.4%. GDP is predicted to grow by 2.2% in 2011.¹¹

The Funes government has taken both short and medium-term steps to respond to the country's economic challenges. 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. President Funes and the IMF agreed to a \$790 million stand-by agreement in March 2010 premised on the idea that as the Salvadoran economy recovers, the government will strive to improve tax administration, restrict spending, and reallocate energy subsidies.¹² A medium-term challenge for the Funes government will be determining how to boost the economy with targeted social spending and infrastructure projects without exceeding the fiscal deficit targets recommended by the IMF. In addition to trying to raise tax revenues, President Funes has secured loans totaling approximately \$600 million from the World Bank and \$450 million from the Inter-American Development Bank to fund anti-poverty efforts, fiscal reform programs, and the creation of an export guarantee fund.

Should the Salvadoran economy continue to falter, broader debates may emerge within the Funes government about the proper economic course for the country to follow, including whether or not to maintain a dollarized economy.¹³ El Salvador achieved notable stability and economic growth in the 1990s following the Salvadoran government's embrace of a "neo-liberal" economic model, 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,

(...continued)

Supreme Court has since declined to order the detention of five additional suspects accused of involvement in the Jesuit case. For background, see: WOLA, "El Salvador Government Holds Military Officers in Custody in Jesuit Case," press release, August 10, 2011; "El Salvador.- Corte Suprema de El Salvador se Niega a Ordenar la Detención de Otros Cinco Militares Procesados en España," *Reuters*, October 7, 2011. In mid-August, another of the 20 officials cited by the judge was arrested in the United States for immigration fraud. He could be returned to El Salvador or face extradition to Spain. Mark Arsenault, "War Crimes Suspect in House Arrest in Saugus; Accused in 1989 Salvadoran Deaths," *Boston Globe*, August 25, 2011.

¹⁰ "Salvador's Central Bank Says Migrants Sent 8.5 Percent Less Money Home in 2009," *AP*, January 12, 2010.

¹¹ *EIU*, September 2011.

¹² 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.

¹³ "Talk of Scrapping Dollar Spices up Budget Debate," *Latin American Weekly Report*, November 25, 2010.

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 (such as the global financial crisis and U.S. recession). After posting strong growth rates in the 1990s, El Salvador registered only 2% growth from 2000-2004 and 3.6% growth from 2005-2008. Even before the economy contracted in 2009, El Salvador's growth rates had not been high enough to improve living standards among the Salvadoran people, approximately 48% of whom continued to live in poverty in 2009 (roughly the same percentage as in 2001).¹⁴ Emigration has reduced rural unemployment and infused some households with extra income in the form of remittances, but has also caused significant social disruptions.

Confronting Crime and Violence

The Funes Administration is also confronting the related problems of crime and violence that have plagued El Salvador since its civil war. Pervasive poverty and inequality, unemployment and underemployment, drug trafficking, corruption, and illicit firearms have all contributed to the current situation. In 2010, El Salvador recorded a murder rate of 66 per 100,000 inhabitants, one of the highest in the world.¹⁵ As many as 30,000 Salvadoran youth belong to *maras* (street gangs), which Salvadoran National Police (PNC) officials maintain are responsible for just under half of all homicides and a majority of extortion occurring in the country.¹⁶ In September 2010, the MS-13 and 18th Street gangs¹⁷ jointly organized a three-day strike in response to new anti-gang legislation that paralyzed the country's transport system. Drug trafficking organizations, both Salvadoran groups such as the Taxis Cartel¹⁸ and Mexican groups such as Los Zetas¹⁹, have also increased their illicit activities in the country, including money laundering.²⁰ In September 2010, the PNC seized two plastic barrels containing a combination of Euros and U.S. dollars worth \$15 million.²¹ Some analysts assert that gang-DTO connections appear to be increasing, and that ties between them are more well-developed in El Salvador than in other Central American countries.²²

¹⁴ U.N. Economic and Social Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America, 2010*, December 2010.

¹⁵ U.N. Office on Drugs and Crime, *Global Study on Homicide*, 2011.

¹⁶ CRS Interview with Salvadoran National Police officials, December 2010.

¹⁷ The major gangs operating in Central America with ties to the United States are the "18th Street" gang (also known as M-18), and their main rival, the Mara Salvatrucha (MS-13). The 18th Street gang was formed by Mexican youth in the Rampart section of Los Angeles in the 1960s who were not accepted into existing Hispanic gangs. It was the first Hispanic gang to accept members from all races and to recruit members from other states. MS-13 was created during the 1980s by Salvadorans in Los Angeles who had fled the country's civil conflict. Both gangs later expanded their operations to Central America. CRS Report RL34112, *Gangs in Central America*, by Clare Ribando Seelke.

¹⁸ 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.

¹⁹ For background on Los Zetas and other Mexican drug trafficking organizations, see: CRS Report R41576, *Mexico's Drug Trafficking Organizations: Source and Scope of the Rising Violence*, by June S. Beittel.

²⁰ "Salvadoran Leader Speaks of Criminal Gangs' Links to Drug Cartels," *Los Angeles Times*, September 11, 2010; Tracy Wilkinson, "El Salvador Becomes Drug Trafficker 'Little Pathway,'" *Los Angeles Times*, March 22, 2011.

²¹ CRS Interview with Salvadoran National Police officials, December 2010.

²² Steven S. Dudley, *Drug Trafficking Organizations in Central America: Transportistas, Mexican Cartels and Maras*, Woodrow Wilson International Center for Scholars Mexico Institute & the University of San Diego Trans-Border Institute, Working Paper Series on U.S.-Mexico Security Collaboration, May 2010.

President Funes had hoped to move away from the *mano dura* (firm hand)²³ policies towards gangs and crime enacted by previous ARENA administrations, but escalating violence has forced him to adopt a number of tough measures.²⁴ In November 2009, President Funes issued an emergency decree 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, a process which may take several years. Some 6,000 troops are now involved in securing border crossings, carrying out joint patrols with police in high-crime areas, and securing the country's prisons.²⁵ In September 2010, El Salvador's Congress enacted a law outlawing the MS-13, 18th Street, and other criminal gangs and the financing of their activities. Human rights organizations have opposed the law, predicting that it will result in a return to repressive police tactics against gangs. Salvadoran government officials have discounted those predictions, maintaining that the law is focused on helping police build stronger anti-gang investigations that will stand up in court.²⁶ El Salvador's current criminal conviction rate is just 5%.²⁷

These highly publicized crime control efforts have been accompanied by other, less visible, changes in the areas of prevention, prison reform and rehabilitation, and institutional/legal reform. For 2011, the Funes government increased funding for prevention programs to roughly 14% of the Ministry of Security's budget (from a historic average of just over 1%).²⁸ In order to deal with the dire situation in the country's prisons, three new prisons are under construction, corrupt prison staff have been purged, and a draft law to provide more rehabilitation programs in the prison system is being developed. Many argue that more needs to be done in this area, however, given that the prisons currently house more than 24,000 prisoners, a third of whom have yet to be sentenced, in facilities designed to hold roughly 8,000 inmates.²⁹ With respect to anti-corruption efforts, the Inspector General of the PNC has dismissed at least 20 police officers found guilty of corruption or ties with criminal groups and suspended hundreds more pending ongoing investigations, but prosecutors have thus far failed to pursue most of those cases.³⁰ In order to provide additional tools for law enforcement to use in criminal investigations and prosecutions, President Funes shepherded a wiretapping law through the National Assembly. Enabling legislation for an asset forfeiture law also passed the Assembly in 2010. President Funes has proposed establishing some sort of a security tax to fund government efforts to enhance public security as was done by President Álvaro Uribe in Colombia, but the private sector has

²³ 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.

²⁴ "Funes Loses Patience with Gangs," *Latin American Weekly Report*, June 24, 2010.

²⁵ U.S. Department of State, *2010 Human Rights Report: El Salvador*, April 2011.

²⁶ Alex Renderos, "El Salvador Moves Against Criminal Gangs," *Los Angeles Times*, September 4, 2010. CRS interview with officials from El Salvador's National Civilian Police, December, 2010.

²⁷ U.S. Department of State, *2010 Human Rights Report: El Salvador*, April 2011.

²⁸ CRS interview with officials from El Salvador's National Civilian Police, December, 2010.

²⁹ U.S. Department of State, *2010 Human Rights Report: El Salvador*, April 2011.

³⁰ Rep. Jim McGovern, "Many Challenges Facing El Salvador: President Funes Deserves U.S. Support," House Proceedings, *Congressional Record*, vol. 156, part 132 (September 28, 2010); U.S. Department of State, *2010 Human Rights Report: El Salvador*, April 2011.

resisted his proposal.³¹ His Administration has also raised the possibility of establishing an international prosecution body similar to the International Commission Against Impunity in Guatemala (CICIG)³² in El Salvador.

Relations with the United States

Throughout the last few decades, the United States has maintained a strong interest in the political and economic situation 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 and foreign assistance to El Salvador, as well as the destination for close to half of Salvadoran exports. Beyond economic linkages, El Salvador and the United States are linked by significant migratory and cultural ties; close to 1.1 million Salvadorans currently reside in the United States.³³ During the Administration of Tony Saca (2004-2009), El Salvador cooperated in counternarcotics operations, supported the U.S. coalition forces in Iraq, and implemented the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR).

Despite some concerns that an FMLN presidential victory could complicate U.S.-Salvadoran relations, bilateral relations have remained friendly since Mauricio Funes took office in June 2009. During his inauguration, which was attended by Secretary of State Hillary Clinton, Funes asserted his desire to “broaden, strengthen, and renew” El Salvador’s relations with the United States.³⁴ 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 Honduras³⁵ and expressed “how interested the United States is in continuing to be an equal partner with El Salvador.”³⁶

Evidence of the strong ties between El Salvador and the United States emerged in the aftermath of Hurricane Ida, when the Obama Administration gave \$840,000 in emergency aid and the House passed H.Con.Res. 213 (Mack), expressing solidarity with the people of El Salvador who were victimized by the storm. This initial assistance was followed by the inclusion of an

³¹ No new security taxes were included as part of the 2012 budget proposal. Estela Enriquez, “Presupuesto de Seguridad 2012: \$531.7 millones,” *La Prensa Gráfica*, October 5, 2011.

³² Inaugurated in January 2008, the International Commission against Impunity in Guatemala (CICIG) is a unique hybrid body that operates completely within the Guatemalan legal system, includes both international and local staff, and has a \$20 million annual budget funded entirely through international donations. In addition to assisting in investigative and prosecutorial actions, CICIG undertakes efforts to build capacity within justice sector institutions and recommends public policies and institutional reforms. CICIG’s mandate, which was originally for two years, has been extended twice and is now scheduled to end in September 2013.

³³ Kate Brick, A. E. Challinor, and Marc R. Rosenblum, *Mexican and Central American Immigrants in the United States*, Migration Policy Institute, June 2011.

³⁴ Mauricio Funes, “Discurso Toma de Posesión,” *Gobierno de la Republica de El Salvador*, June 1, 2009.

³⁵ For background, see: CRS Report R41064, *Honduran Political Crisis, June 2009-January 2010*, by Peter J. Meyer.

³⁶ The White House, Office of the Press Secretary, “Remarks by President Obama and President Funes of El Salvador after Meeting,” March 8, 2010.

additional \$25 million for reconstruction efforts in El Salvador in the FY2010 supplemental appropriations measure (P.L. 111-212).

This year, President Obama highlighted the importance of U.S.-Salvadoran relations by selecting El Salvador as the only Central American country to be included on his itinerary as part of 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.”³⁷ He announced a number of initiatives, including the Partnership for Growth Initiative (discussed below), the Crossroads Fund³⁸ for border infrastructure projects, and the Central American Citizen Security Partnership.³⁹ The Salvadoran government has reciprocated by, for example, deciding to send a small contingent of non-combatant troops to Afghanistan in August 2011.

U.S. Foreign Aid

U.S. bilateral assistance to El Salvador seeks to help enhance citizen security⁴⁰, promote trade and investment, reduce poverty, improve healthcare and education, and strengthen government institutions. Bilateral funding to El Salvador amounted to roughly \$56.1 million in FY2010, including \$25 million in supplemental assistance for reconstruction efforts associated with Tropical Storm Ida (see **Table 1**). U.S. assistance fell to roughly \$29.8 million in FY2011. The Obama Administration requested \$35.4 million in bilateral assistance for El Salvador for FY2012. In the absence of FY2012 appropriations legislation, Congress has passed a continuing resolution (P.L. 112-36) to fund government programs through November 18, 2011. The continuing resolution will continue funding most foreign aid programs at the FY2011-enacted level.

El Salvador receives some foreign assistance beyond the bilateral funds appropriated annually through the foreign operations budget. There are approximately 140 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 in response to natural disasters, including, most recently, \$100,000 provided in May 2010 in

³⁷ The White House, Office of the Press Secretary, “Remarks by President Obama and President Funes of El Salvador in Joint Press Conference,” March 22, 2011.

³⁸ 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 is expected to be able to provide grants worth roughly \$20 million. The White House, Office of the Press Secretary, “The Crossroads Fund: Reducing Transport and Logistics Costs,” March 22, 2011.

³⁹ Under this partnership, the United States will review its security efforts in Central America and potentially refocus funding to adapt to changing conditions. At a June 2011 Central American Security conference, Secretary of State Clinton announced that U.S. funding for the Central America Citizen Security Partnership would exceed \$290 million in FY2011. U.S. Secretary of State Hillary Clinton, “Remarks at the Central American Security Conference (SICA),” U.S. Department of State, June 22, 2011. The \$290 million pledge includes the \$101.5 million being provided through the Central American Regional Security Initiative (CARSI) as well as all other bilateral and regional U.S. assistance being provided to support security efforts in Central America in FY2011. CRS discussions with State Department officials, June 2011.

⁴⁰ U.S. assistance in this area focuses on combating transnational gangs; firearms trafficking, stockpile management and destruction; border security; community-based crime prevention efforts, police professionalization, and countering financial crimes and bulk cash smuggling. See: U.S. Department of State, “U.S.-El Salvador Citizen Security: A Shared Responsibility,” March 22, 2011.

response to Tropical Storm Agatha. In November 2006, El Salvador signed a five-year, \$461 million compact with the Millennium Challenge Corporation (MCC), which is discussed below.

Table I. U.S. Assistance to the El Salvador: FY2010-FY2012

U.S. \$ millions

Account	FY2010 (Actual)	FY2011 (Estimate)	FY2012 (Request)
ESF	25.0 ^a	0.0	0.0
FMF	0.0	1.2	1.2
IMET	1.7	1.5	1.1
GHCS	5.5	3.1	3.1
DA	23.9	23.9	30.0
TOTAL	56.1	29.8	35.4

Sources: U.S. Department of State, Congressional Budget Justification for Foreign Operations: FY2012; FY2011 653(a) allocation data provided by the U.S. Department of State, August 2011.

Notes: GHCS= Global Health and Child Survival (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; INCLE=International Narcotics Control and Law Enforcement; NADR=Non-proliferation, Anti-terrorism and Related Programs.

a. This supplemental assistance was provided for reconstruction efforts in P.L. 111-212.

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 Initiative⁴¹ (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. From FY2008-FY2011, Congress appropriated \$361.5 million for CARSI, a portion of which was intended for El Salvador. For FY2012, the Obama Administration requested \$100 million for CARSI.

Millennium Challenge Corporation (MCC) Compact

In late 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 includes (1) \$88 million for technical assistance and financial services to farmers and rural businesses; (2) \$100 million to strengthen education and training and improve public services in poor communities; and (3) \$233 million to rehabilitate the Northern Transnational Highway and some secondary roads. The MCC compact has been designed to complement the CAFTA-DR and regional integration efforts. Although

⁴¹ CRS Report R41731, *Central America Regional Security Initiative: Background and Policy Issues for Congress*, by Peter J. Meyer and Clare Ribando Seelke.

many have praised its potential, some have questioned why the compact was not designed to encourage communities to channel remittance flows into collective projects that could generate employment and improve local infrastructure. By the end of March 2011, some \$226.8 million in MCC assistance had been disbursed for programs in El Salvador.⁴²

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 (PFG) Initiative, which seeks to foster sustained economic growth and development in top-performing low-income countries.⁴³ PFG involves greater collaboration between the donor and recipient countries than traditional U.S. assistance programs. 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"⁴⁴ sector of the economy.⁴⁵ On September 29, 2011, senior officials from both countries discussed the findings of the binational study and developed a list of joint commitments that will be included in a forthcoming Joint Country Action Plan.

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, the first time the country has received such a designation.⁴⁶ A country's inclusion in the list does not mean that its antidrug efforts are inadequate.

In 2010, Salvadoran officials seized 126 kilograms of cocaine, 708 kilograms of marijuana, and \$20 million in illicit proceeds. Both the Anti-Narcotics Division (DAN) of the PNC and the Salvadoran Navy coordinated closely with their U.S. counterparts. U.S. counternarcotics assistance focuses on improving the interdiction capabilities of Salvadoran law enforcement agencies; increasing transparency, efficiency, and respect for human rights within the criminal justice system; and supporting anti-money laundering efforts. Insufficient funding and equipment for the PNC and the Attorney General's Financial Crime Investigation Unit hindered bilateral efforts.⁴⁷ In 2010, the Salvadoran National Assembly passed an asset forfeiture law, as well as a law allowing the Attorney General's office to perform wiretapping. On December 8, 2010, the U.S. and Salvadoran governments announced the creation of a new Wiretapping Center in El

⁴² See: <http://www.mcc.gov/pages/countries/program/el-salvador-compact>.

⁴³ 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, emphasize partnership and country ownership.

⁴⁴ "Tradables" refers to products that are or can be traded internationally.

⁴⁵ U.S. Department of State, *Partnership for Growth: El Salvador Constraints Analysis*, July 19, 2011.

⁴⁶ The White House, Office of the Press Secretary, "Presidential Determination on Major Illicit Drug Transit or Major Illicit Drug Producing Countries for Fiscal Year 2012," press release, September 15, 2011.

⁴⁷ Ibid.

Salvador to help officials in the Attorney General's office intercept and analyze telecommunications.⁴⁸

Comalapa International Airport in El Salvador serves as one of two Forward Operating Locations (FOLs) for U.S. anti-drug forces in the hemisphere. The FOL extends the reach of detection and monitoring aircraft into the Eastern Pacific drug smuggling corridors, through which more than half of the narcotics destined for the United States transit.⁴⁹ 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 as an FOL for an additional five years.⁵⁰ 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.

Migration Issues

Beyond financial linkages, the United States is home to more than a million Salvadoran-born migrants.⁵¹ 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.⁵² Remittances sent from Salvadoran workers totaled some \$3.46 billion in 2009, some 8.5% lower than in 2008.⁵³ Remittances increased slightly in 2010 to \$3.54 billion, but remained below 2008 levels.⁵⁴

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 220,000 eligible Salvadoran migrants. TPS has been extended several times, and is currently scheduled to expire in March 2012.

Nonetheless, many Salvadoran migrants continue to be deported from the United States, including 20,830 in FY2010, 41.4% of which were deported on criminal grounds.⁵⁵ 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.⁵⁶

⁴⁸ "U.S. and El Salvador Sign Agreement for New Wiretapping Center," *Targeted News Service*, December 8, 2010.

⁴⁹ U.S. Southern Command, "Fact Sheet: Forward Operating Locations," February 5, 2009.

⁵⁰ "Amplián Permanencia de Centro Antidrogas de EU en El Salvador," *Agencia Mexicana de Noticias*, April 2, 2009.

⁵¹ Kate Brick, A. E. Challinor, and Marc R. Rosenblum, *Mexican and Central American Immigrants in the United States*, Migration Policy Institute, June 2011.

⁵² U.S. Department of State, *Partnership for Growth: El Salvador Constraints Analysis*, July 19, 2011.

⁵³ "Salvador's Central Bank Says Migrants Sent 8.5 Percent Less Money Home in 2009," *AP*, January 12, 2010.

⁵⁴ "El Salvador Central Bank Says Migrants Sent 2.2 Percent More Money Home in 2010," *AP*, January 18, 2011.

⁵⁵ Information provided to CRS by the Department of Homeland Security, Immigration and Customs Enforcement, Office of Detention and Removal.

⁵⁶ Grupo de Trabajo Binacional El Salvador - Estados Unidos Verifica Proceso de Deportación," Ministerio de Relaciones Exteriores de El Salvador, January 12, 2010.

U.S. Trade and CAFTA-DR

The United States is El Salvador's main trading partner, purchasing 48% of its exports and supplying close to 34% 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. Some Salvadoran officials have attributed increases in employment, exports, and investment to the agreement's implementation. Although the country's apparel exports to the United States declined during the first year CAFTA-DR was in effect, El Salvador saw a 21% rise in non-apparel exports to the United States, with significant increases in ethanol, food stuffs, and metal products. Salvadoran exports to the United States increased by 10% in 2007 and 9% in 2008 as a result of a slight recovery in textile and apparel exports and an increase in non-traditional exports. U.S. exports to El Salvador have also increased, rising by 16% in 2006, 7.5% in 2007, and 6.5% in 2008. These positive trends were reversed in 2009, however, as a result of the U.S. recession. Salvadoran exports to the United States fell by 3.9% and U.S. exports to El Salvador fell close to 18%.⁵⁷ Exports to the United States recovered in 2010, however, finishing roughly 22% higher than in 2009.

According to the aforementioned 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 8 percentage points of GDP compared to CAFTA colleagues" due to its productivity constraints. Low productivity may be due, in part, to low levels of human capital.⁵⁸

⁵⁷ U.S. Department of Commerce statistics, as presented by *Global Trade Atlas*, 2011.

⁵⁸ U.S. Department of State, *Partnership for Growth: El Salvador Constraints Analysis*, July 19, 2011.

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