



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

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November 9, 2012

Congressional Research Service

7-5700

www.crs.gov

RS21655

CRS Report for Congress

Prepared for Members and Committees of Congress

Summary

The United States 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 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 successive Nationalist Republican Alliance (ARENA) governments rebuild democracy and implement market-friendly economic reforms.

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. His inauguration marked the end of more than 20 years of ARENA rule. President Funes has generally pursued moderate policies that have enabled him to form cross-party coalitions in the National Assembly, but caused periodic friction between him and 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 the country. In an attempt to address the country's high rate of violent crime, the Funes government endorsed a historic—and risky—truce involving the country's largest gangs. The truce has resulted in a dramatic reduction in homicides since March 2012.

Maintaining close ties with the United States has been a primary foreign policy goal of the Funes Administration. 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. U.S. bilateral assistance, which totaled \$28.2 million in FY2012, as well as aid provided through the Central American Regional Security Initiative (CARSI), is supporting PFG priorities. The Administration requested an increase in funding—to \$41.8 million—for El Salvador for FY2013. The Millennium Challenge Corporation (MCC) recently closed out 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 designation of the MS-13 gang as a major transnational criminal organization whose assets will be targeted may affect bilateral anti-gang efforts. See: CRS Report R41731, *Central America Regional Security Initiative: Background and Policy Issues for Congress*, by Peter J. Meyer and Clare Ribando Seelke.

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Political 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 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 (WOLA), 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," February 2012; World Bank, *World Development Indicators*; Economist Intelligence Unit; 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 Funes' pragmatic approach to governance with helping his administration secure much-needed support from the International Monetary Fund 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.⁵ Some assert that President Funes has adopted a more comprehensive approach to public security than his predecessors, while others maintain that his government has struggled to avoid resorting to repressive policies.⁶ In terms of addressing human rights violations from El Salvador's civil war era, Funes issued a historic apology to victims of the 1981 El Mozote⁷ massacre on the 20th anniversary of the signing of the Peace Accords. However, he has not pushed for a repeal of the 1993 amnesty law nor did he urge the Supreme Court to extradite military officers to Spain to stand trial for their roles in the 1989 murders of several Jesuit priests.⁸ Although his government has struggled to improve the weak economic conditions and serious security challenges it inherited, President Funes has maintained approval ratings above 60%.

Analysts predict that President Funes will encounter greater difficulty enacting his legislative agenda and implementing his ambitious development plan⁹ now that he has entered lame duck status and his party has been replaced by ARENA as the largest party in the National Assembly.¹⁰ ARENA regained popular support vis-à-vis GANA and the National Coalition party or CN, which replaced the National Conciliation Party (PCN),¹¹ in the March 2012 legislative elections, increasing its representation in the 84-member legislature from 20 to 33. The FMLN lost four seats; it now has 31 congressional seats. With no party having captured a simple majority, President Funes will once again have to form alliances to pass legislation. Funes has pledged to shepherd an asset forfeiture law and a package of reforms aimed at facilitating business creation and investment through the legislature.¹² He recently secured legislative approval of an \$800 million bond issue that will be used to pay for foreign debt payments coming due in January 2013, but other loan approvals are still pending. President Funes has offered to mediate an

⁵ Council on Hemispheric Affairs, *Concessions of a Leftist Party: The FMLN's Dilemma in the Face of Funes' Centrist Policies*, June 28, 2010.

⁶ Adriana Beltran, *Stronger than the Iron Fist: Funes Administration Attempts a Different Approach to Crime and Violence in El Salvador*, WOLA, March 18, 2011; Linda Garrett, *El Salvador: Renewed Concerns About Militarization of Public Security as President Funes Announces More Changes*, Center for Democracy in the Americas (CDA), January 24, 2012.

⁷ 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.

⁸ 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 since 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.

⁹ An outline of the Funes Administration's development plan is available at: http://www.uca.edu.sv/deptos/economia/media/archivo/be567c_planquinquenaldesarrolloelsalvador20102014.pdf.

¹⁰ "Funes is Facing a Difficult Final Stretch to his Presidency," *Economist Intelligence Unit (EIU)*, June 18, 2012,

¹¹ 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.

¹² U.S. Department of State, *Partnership for Growth El Salvador-United States, Six Month Scorecard: November 2011-May 2012*, July 2012.

ongoing dispute between the parties in the Assembly over who to select as the next Attorney General; his offer has thus far been rejected.¹³ As the March 2014 presidential elections approach, legislative paralysis is increasingly likely to occur.

Constitutional Crisis: Resolution and Lingering Issues

From June-August 2012, the Funes Administration found itself in the midst of a constitutional and political crisis over the make-up and authority of El Salvador's Supreme Court. The court is comprised of fifteen 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 to serve for nine-year terms. Following the 2009 elections, the Assembly approved five new justices after difficult negotiations between the parties.

Since their installation in 2009, the five justices on the constitutional chamber of the Supreme Court have taken actions, some of them arguably activist rulings,¹⁴ 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 required by the constitution. These rulings angered politicians from across the political spectrum and have led to threats to the independence of the court.¹⁵ 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.¹⁶ Although the repeal reaffirmed the independence of the court, tensions between the constitutional chamber, the executive, and the legislature 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 before relinquishing control (as ARENA-dominated legislatures had done in the past).¹⁷ 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 appointment of five justices was deemed unconstitutional as the outgoing legislature had already appointed one group of justices in 2009.

¹³ "FMLN y ARENA no Quieren 'Intromisión' de Funes para Elegir Fiscal General," *La Prensa Gráfica*, November 7, 2012.

¹⁴ For background, see: Geoff Thale, *Tensions Rise Between El Salvador's National Assembly and Supreme Court*, WOLA, July 18, 2012. Hereinafter: Thale, July 2012.

¹⁵ FESPAD and Due Process of Law Foundation, *Informe Sobre la Situación de la Independencia Judicial en El Salvador*, March 2012. Hereinafter: DPLF, March 2012.

¹⁶ DPLF, March 2012.

¹⁷ Thale, July 2012.

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. 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.

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 maintain did not have the authority to overturn a Supreme Court decision of one of its member states.¹⁸ 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.¹⁹

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 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.²⁰

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.²¹

The recent political crisis negatively impacted the political climate in El Salvador. First, the protracted nature of the political crisis derailed legislative consideration of a number of important initiatives and hurt relations between deputies from the FMLN-led coalition and ARENA. That could present problems for future legislative cooperation. Second, President Funes' initial

¹⁸ Mirte Posterna, "The Supreme Court Crisis in El Salvador," *Americas Quarterly*, July 18, 2012.

¹⁹ "El Salvador's Institutional Crisis Worsens," *Latin News Daily*, July 11, 2012.

²⁰ 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.

²¹ CRS interviews conducted in El Salvador, August 20-22, 2012.

inclination to side with the FMLN-led coalition in the Assembly rather than insisting on a mediated solution that respected the rulings of the Supreme Court angered the private sector, including members of the Growth Council he created as part of the Partnership for Growth (PFG). President Funes then pushed a decree through the Assembly without debate on August 17 that changed the structure of the governing boards of 19 autonomous organizations and angered some private sector board representatives who were subsequently removed from their posts.²²

The resolution to the constitutional crisis also did not address the constitutional court's July ruling that the outgoing Assembly's selection of a new Attorney General in April 2012 was also unconstitutional. Legislators agreed to hold another vote to fill the post, but have thus far been unable to agree on a candidate capable of garnering the 56 votes needed to secure the appointment. President Funes has urged the FMLN-led coalition of parties and ARENA to consider new candidates, but neither side has agreed to his proposal.²³

2014 Presidential Elections

The results of the March 2012 municipal elections may not bode well for the FMLN heading into the 2014 presidential campaign. 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 moderate voters. Former President Tony Saca may also enter the race for the GANA party, which could take away votes from both ARENA and the FMLN, thereby forcing a runoff election.²⁴

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 rates 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,²⁵ 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 and local gangs appear to be increasing, and that ties between them are more well-developed in El Salvador than in other Central American countries.²⁶ Between 20,000 and 35,000 Salvadoran

²² CRS interviews conducted in El Salvador, August 20-22, 2012.

²³ "Funes Dice se Debe Incluir a más Candidatos para Fiscal," *La Prensa Gráfica*, November 6, 2012.

²⁴ "FMLN Looks to Moderate for Vice-Presidential Pick," *EIU*, October 26, 2012.

²⁵ 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.

²⁶ Steven S. Dudley, *Drug Trafficking Organizations in Central America: Transportistas, Mexican Cartels and Maras*, (continued...)

youth belong to *maras* (street gangs),²⁷ which former PNC officials had maintained were responsible for half of all homicides and a majority of extortion in the country.²⁸ 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.²⁹

Police, Military, and Judicial Capabilities

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 2011.³⁰ 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 others." Corruption and an inability to prosecute officers accused of corruption and human rights abuses remain additional barriers to improved police performance.

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 soon rule on that matter.³¹ 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.³² 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.³³ Minister

(...continued)

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.

²⁷ 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.

²⁸ CRS Interview with Salvadoran National Police officials, December 2010.

²⁹ "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.

³⁰ Red de Seguridad y Defensa de América Latina (RESDAL), *Índice de Seguridad Pública y Ciudadana en América Latina: El Salvador, Guatemala y Honduras*, 2011.

³¹ "El Salvador: Admiten Demanda por Militares en Seguridad, *Terra*, March 27, 2012.

³² See, for example, Fernando de Dios, "Análisis: Qué Esperar de la Nueva Política de Seguridad," *Contrapunto*, February 12, 2012.

³³ 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.

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.³⁴

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).³⁵

In addition to problems within the PNC, the State Department maintains that “inefficiency, corruption, political infighting, and insufficient resources”³⁶ 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 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.³⁷

Gang Truce

Upon his appointment as minister of public security, Munguía Payés appeared to back a hardline approach to combating gangs similar to past *mano dura* (firm hand)³⁸ 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 Salvatrú (MS-13) and 18th 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. Nevertheless, since the time the prison transfers took place, homicides in El Salvador dramatically declined (from an average of roughly 14 per day to 5 per day).³⁹ Gang leaders have pledged not to forcibly recruit children into their ranks or perpetrate violence against women, turned in small amounts of

³⁴ Linda Garrett, *El Salvador Update*, Center for Democracy in the Americas, August-September 2012.

³⁵ RESDAL, 2011, op. cit.

³⁶ U.S. Department of State, *2011 Country Report on Human Rights Practices: El Salvador*, May 2012. Hereinafter: State Department, May 2012.

³⁷ Ibid.

³⁸ 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.

³⁹ Lauren Villagran, “Can a Gang Truce in El Salvador Open the Door to Lasting Peace?” *Christian Science Monitor*, October 24, 2012.

weapons, and offered to engage in broader negotiations that could potentially result in a permanent truce.⁴⁰ Gang negotiators and government officials maintain 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.⁴¹ 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.⁴²

Many, including OAS Secretary General Jose Miguel Insulza, have praised the truce for reducing the homicide rate in the country to less than half of what it once was and effectively saving the lives of thousands of young people.⁴³ 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.⁴⁴ 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 focus and attention on the need for prevention and rehabilitation programs.⁴⁵ 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.”⁴⁶

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.⁴⁷ Others have asserted 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 months of less restrictive prison conditions.⁴⁸ 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.⁴⁹ (See “Anti-Gang Efforts and the Designation of the MS-13 as a Major Transnational Criminal Organization”)

⁴⁰ 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.

⁴¹ CRS interviews conducted in El Salvador, August 20-22, 2012.

⁴² Villagran, op.cit.

⁴³ 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.

⁴⁴ “ONU: Tregua entre Pandillas es Oportunidad contra la Violencia en El Salvador,” *La Prensa Gráfica*, September 13, 2012.

⁴⁵ WOLA, op. cit.

⁴⁶ Archibold, op. cit.

⁴⁷ Carlos Martinez and Jose Luis Sanz, “The New Truth About the Gang Truce,” *InsightCrime*, September 14, 2012.

⁴⁸ Farah, June 2012.

⁴⁹ Enrique García, “Aponte Reitera que la “MS” es Organización Criminal Transnacional,” *El Mundo*, October 16, 2012.

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.⁵⁰ 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).⁵¹ 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 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.⁵² 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.

⁵⁰ U.S. Department of State, *Partnership for Growth El Salvador-United States, Six Month Scorecard: November 2011-May 2012*, July 2012.

⁵¹ U.N. Economic and Social Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America, 2011*, December 2011.

⁵² 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.

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.⁵³ GDP growth stood at 1.5% in 2011.⁵⁴ 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 has prompted analysts to revise El Salvador's 2012 GDP growth estimate downward to 1.6%.⁵⁵ 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.⁵⁶

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,⁵⁷ 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 afforded by CAFTA-DR.⁵⁸ 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.

⁵³ 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.

⁵⁴ *EIU*, December 2011.

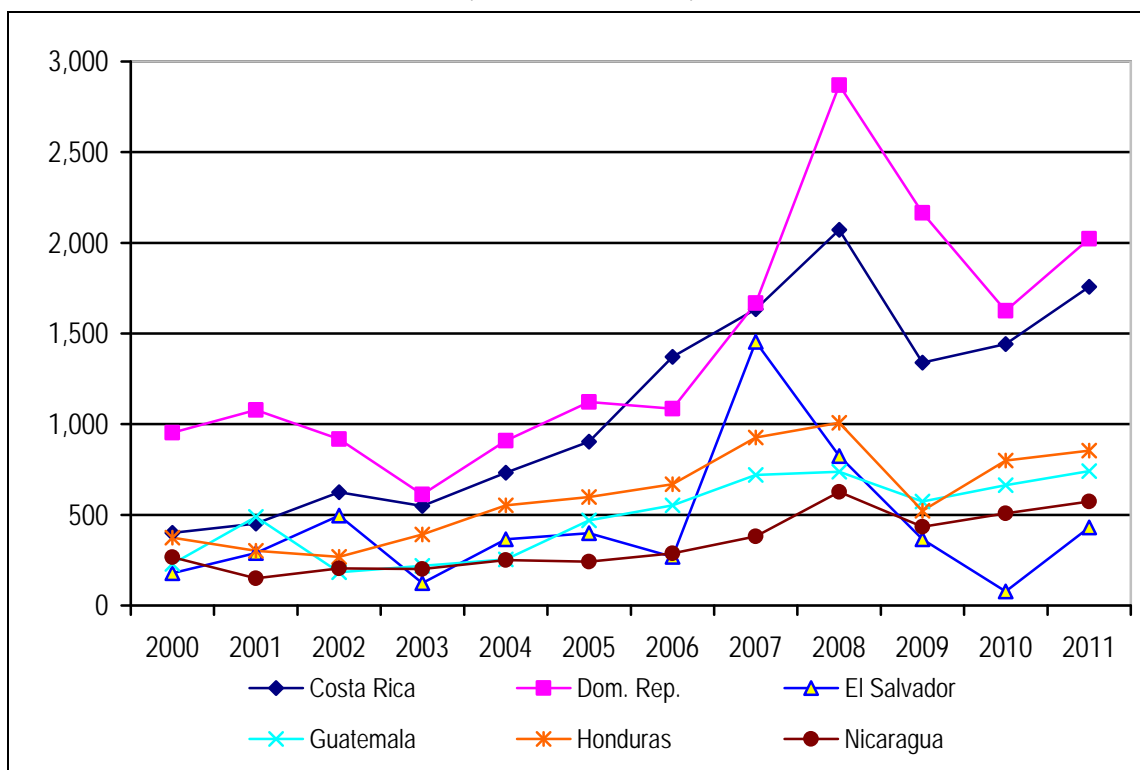
⁵⁵ "El Salvador: Country Report 4th Quarter 2012," *EIU*, accessed November 4, 2012.

⁵⁶ "Moody's Downgrades El Salvador's Rating to Ba3 and Keeps the Outlook at Stable," *Global Credit Research*, November 5, 2012.

⁵⁷ 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.

⁵⁸ 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.

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 and among the top suppliers of foreign assistance to El Salvador, as well as the destination for close to half of Salvadoran exports. Beyond economic bonds, 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.⁵⁹ During the Administration of Tony Saca (2004-2009), El Salvador cooperated in counternarcotics operations, supported the U.S. coalition forces in Iraq, and

⁵⁹ Kate Brick, A. E. Challinor, and Marc R. Rosenblum, *Mexican and Central American Immigrants in the United States*, Migration Policy Institute, June 2011.

implemented the Dominican Republic-Central America-United States Free Trade Agreement (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 Secretary of State Hillary Clinton, Funes asserted his desire to “broaden, strengthen, and renew” El Salvador’s relations with the United States.⁶⁰ 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 Honduras⁶¹ and expressed “how interested the United States is in continuing to be an equal partner with El Salvador.”⁶²

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.”⁶³ He announced a number of initiatives, including the Partnership for Growth; the Crossroads Fund⁶⁴ for border infrastructure projects; and the Central American Citizen Security Partnership.⁶⁵ 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.

Thus far in 2012, U.S.-Salvadoran cooperation has continued despite tension that arose during the aforementioned constitutional crisis. U.S.-Salvadoran efforts and U.S. assistance have gradually 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.⁶⁶ In September 2012, both governments celebrated the

⁶⁰ Mauricio Funes, “Discurso Toma de Posesión,” *Gobierno de la Republica de El Salvador*, June 1, 2009.

⁶¹ For background, see CRS Report R41064, *Honduran Political Crisis, June 2009-January 2010*, by Peter J. Meyer.

⁶² 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.

⁶³ 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.

⁶⁴ 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.

⁶⁵ 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.

⁶⁶ 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*, (continued...)

completion of El Salvador's first MCC compact; a second compact proposal is currently being developed by the Salvadoran government. In mid-October, 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.⁶⁷ 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"⁶⁸ sector.⁶⁹

On November 3, 2011, the two governments signed a 2011-2015 Joint Country Action Plan officially launching the PFG.⁷⁰ 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 twenty 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 and convened a donor's conference in El Salvador in February 2012.

(...continued)

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.

⁶⁷ 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.

⁶⁸ "Tradables" refers to products that are or can be traded internationally.

⁶⁹ U.S. Department of State, *Partnership for Growth: El Salvador Constraints Analysis*, July 19, 2011.

⁷⁰ 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.

Six months into the implementation of the Joint Country Action Plan, the U.S. and Salvadoran governments reported that eighteen of twenty bilateral goals were “on track” to being met.⁷¹ Promoting the use of extraditions as a crime control mechanism and advancing civil service reform in El Salvador had 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, and the provision of community policing training to 10,450 police officials;
- the development and distribution of a manual to guide cooperation between police and prosecutors on investigations and U.S. training provided to 242 justice sector officials; and,
- 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 drafting of a package of legislation backed by the private sector that is aimed at making it easier to start businesses and invest in El Salvador, and the presentation of a law to boost private-public partnerships;
- the Comalapa airport modernization project and the potential modernization of la Unión port; and,
- the start of programs aimed at improving the government’s fiscal transparency, using results-based budgeting, and reducing tax evasion.⁷²

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 Caribbean (see **Table 1**).⁷³ In the absence of a final FY2013 foreign appropriations measure, Congress passed a continuing resolution, H.J.Res. 117, to fund most foreign aid programs—including assistance to El Salvador—at FY2012 levels plus 0.6% through March 27, 2013.

⁷¹ U.S. Department of State, *Partnership for Growth El Salvador-United States, Six Month Scorecard: November 2011-May 2012*, July 2012, available at: <http://photos.state.gov/libraries/elsalvador/92891/PFG/PFG%20-%20Six%20Month%20Scorecard%202012.pdf>.

⁷² Ibid.

⁷³ For background, see: CRS Report R42582, *U.S. Foreign Assistance to Latin America and the Caribbean: Recent Trends and FY2013 Appropriations*, by Peter J. Meyer and Mark P. Sullivan.

As previously mentioned, U.S. bilateral assistance to El Salvador is being realigned to focus on reducing insecurity and boosting productivity in the country.⁷⁴ 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)

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

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 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, more than \$605,000 provided through early December 2011 in response to Tropical Depression 12E.⁷⁵

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 Initiative⁷⁶ (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

⁷⁴ U.S. Department of State, *FY2013 Congressional Budget Justification for Foreign Operations*.

⁷⁵ U.S. Agency for International Development (USAID), "Fact Sheet #5, Fiscal Year 2012: Central America - Floods," press release, December 7, 2011.

⁷⁶ CRS Report R41731, *Central America Regional Security Initiative: Background and Policy Issues for Congress*, by Peter J. Meyer and Clare Ribando Seelke.

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. The Obama Administration has requested an additional \$107.5 million for CARSI in FY2013.

Millennium Challenge Corporation (MCC) Compact

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) a \$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.⁷⁷ 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 compacts' 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.⁷⁸ 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.⁷⁹ The Salvadoran government complemented MCC investments in each of the project areas, investing \$70 million in road construction and rehabilitation alone.

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 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.⁸⁰ Since El Salvador is still in the process of developing its second compact, the MCC Board will have to vote again on its eligibility to submit a compact when it meets in mid-December 2012.⁸¹ The compact proposal is expected to be finalized in 2013.

⁷⁷ The Compact also included \$28 million for program administration and \$6 million for monitoring and evaluation.

⁷⁸ 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.

⁷⁹ Millennium Challenge Corporation (MCC), "MCC's Compact with El Salvador," September 2012.

⁸⁰ Altschul, October 2012.

⁸¹ According to the MCC's FY2013 scorecard for El Salvador, the country passed enough indicators to continue being eligible for a compact, but scored below the median of countries ranked in indicators related to fiscal policy, natural resource protection, immunization rates, girls' secondary education enrollment, ease of starting a business, and rule of law. See: <http://www.mcc.gov/scorecards>.

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.⁸² A country’s inclusion in the list does not mean that its antidrug efforts are inadequate.

In 2011, Salvadoran officials seized 649 kilograms of cocaine, 1,079 kilograms of marijuana, and \$1.8 million in illicit cash. 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.⁸³ 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 that a new Wiretapping Center in El Salvador would be developed with \$5 million in U.S. support to help officials in the Attorney General’s office intercept and analyze telecommunications.⁸⁴ The center recently opened.

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.⁸⁵ 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.

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.⁸⁶ In 2004, the FBI created an MS-13 Task Force to improve information-sharing and intelligence-gathering among U.S. and Central American law enforcement officials. Since that time, the Task Force has sent more than 500 reports on identified gang members to Salvadoran law enforcement. 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

⁸² 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.

⁸³ Ibid.

⁸⁴ “U.S. and El Salvador Sign Agreement for New Wiretapping Center,” *Targeted News Service*, December 8, 2010.

⁸⁵ “Amplián Permanencia de Centro Antidrogas de EU en El Salvador,” *Agencia Mexicana de Noticias*, April 2, 2009.

⁸⁶ For background, see: CRS Report RL34112, *Gangs in Central America*, by Clare Ribando Seelke.

“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.⁸⁷ 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 \$21 million was provided for country and regional efforts between FY2008-FY2011. 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 2008.⁸⁸ 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.

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.) 13581.⁸⁹ 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.⁹⁰ The Treasury Department based its designation on the MS-13’s involvement in “drug trafficking, kidnapping, human smuggling, sex trafficking, murder,” and other serious criminal offenses that threaten U.S. and Central American citizens.

While there is evidence that some MS-13 cliques in the Washington D.C. area collaborate with groups based in El Salvador, many analysts maintain that transnational collaboration is not the norm for the MS-13.⁹¹ 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.”⁹² He and Minister of Justice and Public Security Munguía Payés have pledged to continue supporting efforts to support 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.⁹³

⁸⁷ Embassy of the United States in San Salvador, El Salvador, “El Salvador Signs CHIP,” press release, May 9, 2012.

⁸⁸ Regional anti-gang efforts have focused on six key areas: investigative capacity, legal capacity, intelligence capacity, community policing, prevention, and prisons.

⁸⁹ U.S. Department of Treasury, “Treasury Sanctions Latin American Criminal Organization,” press release, October 11, 2012.

⁹⁰ 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.

⁹¹ Geoffrey Ramsey, “Tracking El Salvador’s Mara Salvatrucha in Washington D.C.,” *InSight Crime*, October 12, 2012.

⁹² Geoffrey Ramsey, “El Salvador President: US 'Overestimating' MS-13,” *InSight Crime*, October 11, 2012.

⁹³ Garrett, October 2012.

Migration Issues

The United States is home to more than 1 million Salvadoran-born migrants.⁹⁴ 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.⁹⁵

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.⁹⁶ 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.⁹⁷ 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 Federal Bureau of Investigation's (FBI's) Criminal History Information Program (CHIP).⁹⁸

U.S. Trade and CAFTA-DR⁹⁹

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

⁹⁴ Kate Brick, A. E. Challinor, and Marc R. Rosenblum, *Mexican and Central American Immigrants in the United States*, Migration Policy Institute, June 2011.

⁹⁵ U.S. Department of State, *Partnership for Growth: El Salvador Constraints Analysis*, July 19, 2011.

⁹⁶ Information provided to CRS by the Department of Homeland Security, Immigration and Customs Enforcement, Office of Enforcement and Removal Operations.

⁹⁷ Grupo de Trabajo Binacional El Salvador - Estados Unidos Verifica Proceso de Deportación, Ministerio de Relaciones Exteriores de El Salvador, January 12, 2010.

⁹⁸ U.S. Department of State, Embassy in San Salvador, "El Salvador Signs CHIP," May 9, 2012.

⁹⁹ CRS Report R42468, *The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA DR): Developments in Trade and Investment*, by J. F. Hornbeck.

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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