

El Salvador

Status Index (Democracy: 3.6 / Market economy: 3.1)		6.7	Management Index		5.2
System of government	Presidential democracy		Population	6.3 mill.	
Voter turnout	38.5 % (Parliamentary elections 2000)		GDP p. c. (\$, PPP)	5,260	
Women in Parliament	9.5 % (2003)		Unemployment rate	7.1%	
Population growth^a	1.6 %		HDI	0.719	
Largest ethnic minority	5 % ^b		UN Education Index	0.74	
			Gini Index	50.8 (1998)	

Data for 2001 – if not indicated otherwise. ^a Annual growth between 1975 and 2001. ^b 94 % mestizos, 5 % indígenas, 1 % whites. Source: UN Human Development Report 2003.

1. Introduction

Under the current government of President Francisco Flores, who has been in office since 1999, and ten years after the end of the civil war (1980–1992), El Salvador remains a land of many contradictions. The terms of the peace accords negotiated after the war were implemented swiftly in certain areas, including the political integration of the guerrillas; restructuring, downsizing and “purging” of the military; and the formation of a new police force. Other goals, such as the creation of a functional judicial system, land redistribution and credit programs and national reconciliation, have been treated with less attention and remain incomplete. Although political conflicts have assumed a more civilized form, the country suffers from rampant criminal violence.

Democracy exists, but the political elite has demonstrated limited ability to address the country’s grave social problems, and there is dampened confidence in democratic institutions among the population. The political power of the military has been broken, a new police force is active, and yet there are continuing deficiencies with respect to the rule of law and a culture of impunity (*impunidad*). The far-reaching liberalization of the economy has been welcomed by international lenders, but extreme economic disparities continue to exist and have even been exacerbated to some extent.

2. History and characteristics of transformation

Democratic transformation: Political democratization was initiated in the 1980s in the midst of a civil war, and it has turned out to be an exceedingly lengthy

process. Following several civilian-military juntas between 1980 and 1982, the military formally turned over the business of governing to a transitional government, which ruled from 1982 to 1984. Civilian presidents emerging from increasingly competitive elections governed from 1984 on. The first of these was the Christian Democrat José Napoleón Duarte (1984–1989), whose power to govern was still severely restricted by the influence of the military. He was succeeded by Alfredo Cristiani (1989–1994), Armando Calderón Sol (1994–1999), and Francisco Flores (1999 to present). All three successors belonged to the right-wing party of large landowners and entrepreneurs, the *Alianza Republicana Nacionalista* (ARENA).

Of paramount importance for the democratization process was the peace accord of 1992, which gave the political transition its decisive impetus. The civil war was brought to an end and the guerrilla organization *Frente Farabundo Martí para la Liberación Nacional* (FMLN) transformed itself into a political party. The FMLN participated in elections for the first time in 1994 and advanced to a position as the country's strongest party next to ARENA. The FMLN even won the majority of seats in the parliamentary elections of 2000. Despite several competitive elections and peaceful changes of government, if not transfers of power, there has been no marked qualitative consolidation of the democratic transformation so far. A high level of mistrust continues to exist between government and opposition. The political elite shows limited concern for the interests and problems of the majority of the population, which, in turn, has little confidence in the politicians, political parties and democratic institutions.

Market economic transformation: Since the 1990s, the ARENA governments have carried out a far-reaching market-based economic transformation with a neo-liberal cast. It was based essentially on privatizing state companies, reforming the state apparatus, opening the economy to the outside world, attracting foreign investment and implementing a model of regional integration that exposes agricultural production in particular to stiff and somewhat distorted competition. Economic policy has given priority to the service, financial and outward-processing sectors.

Along with Chile, El Salvador's economy has come to be considered one of the most liberal in Latin America, while the society continues to be marked by stark contrasts. Development of the market economy's social dimension remains, for the most part, yet to be seen.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

El Salvador has a liberal-representative democratic form of governance which, although it is not threatened in its continued existence, shows problems in

effectiveness and representation, as well as deficiency with respect to the rule of law.

3.1.1 Political regime

(1) *Stateness*: Since the end of the civil war, the state's monopoly on the use of force has, in principle, been established throughout the country. However, it is undermined by the high incidence of criminal violence. Among Latin American countries, El Salvador's murder rate remains second only to Colombia's. The rate of violent death is higher now than it was even during the civil war. Such violence is no longer politically motivated; rather, it is everyday criminal violence. Despite numerous controversial moves to tighten criminal and procedural law and recent successes in fighting crime, the government has been unable to bring violence under control.

In this ethnically relatively homogeneous country, 95 % of El Salvador's inhabitants are mestizos, all citizens possess equal citizen rights, and the majority of Salvadorans recognize the state constitution. There is maximum separation between church and state. The Catholic Church continues to be of great socio-political importance, however. State institutions and infrastructure go beyond matters of internal security, but do not reach the entire population and sometimes function inadequately.

(2) *Political participation*: The constitution guarantees the right to vote in a general, direct, equal, secret and free ballot. The president is elected to a five-year term by popular vote, while competitive parliamentary and municipal elections take place every three years. Under current electoral law, approximately 2.5 million Salvadorans living abroad are not eligible to participate in the elections. In fact, the power to govern is vested in the elected representatives, although the government and Parliament are under the influence of powerful socio-political groups, primarily large entrepreneurs. The military, whose veto power had for years prevented a transition to democracy, lost considerable power following the 1992 peace accord and the subsequent restructuring, downsizing and purging of the army. The fact that the National Defense Act (*Ley de Defensa*), passed in 2002 despite criticism from the opposition, empowers the armed forces to protect the state against "threats from within" is problematical in light of historical experience.

Freedom of association and freedom of assembly are by and large assured as part of the basic democratic order. During the evaluation period, there were massive public protests and demonstrations, most recently against the government's privatization plans for the healthcare sector. Freedom of expression and freedom of the press also exist. There is a close relationship, however, between the major mass media, the economic elite and the government.

(3) *Rule of law*: The balance of powers is formally recognized, although it is compromised by the structural dominance of the executive branch and, above all, by the structural weakness of the judicial branch. The judicial branch is institutionally differentiated but severely limited in its operations. Despite certain reforms in the 1990s, the impartial, fair and swift administration of justice is not yet guaranteed, and certainly not for poorer segments of the population. During the evaluation period it was reported that numerous judges, prosecutors and attorneys were professionally underqualified. In several documented cases, their academic titles and accreditation were acquired by illegitimate means. Under public pressure, some of them were dismissed by the Supreme Court of Justice (*Corte Suprema de Justicia*). Only gradually and accompanied by great difficulties the judicial branch is gaining more independence.

Lack of punishment for past crimes (*impunidad*) poses a serious problem, especially in relation to crimes committed during the civil war, the vast majority of which had been perpetrated by members of the armed and security forces and right-wing “death squads.” To this day, an amnesty law passed in 1993 prevents prosecution of crimes against humanity committed during the war. Until now, the executive, legislative and judicial branches have made little effort to change this much-criticized *impunidad*, and relevant recommendations from the Inter-American Human Rights Organization were ignored. Convictions have been attained only outside the country.

In the United States in July 2002, two former generals—the former defense minister, José Guillermo García, and the former head of the national guard, Carlos Eugenio Vides Casanova—were sentenced to make a large compensation payment to three victims of torture.

The office of Ombudsman for Human Rights (*Procuraduría para la Defensa de los Derechos Humanos*, PDDH) suffered a loss of moral credibility under controversial management during the period from 1998 to 2001. The crisis was not resolved until the election, on July 6, 2001, of the new *procuradora*, Beatrice Alamani de Carillo, who has been forced, however, to contend with political resistance and the underfinancing of her office. Although human rights activists are no longer being murdered in the customary manner of the 1980s, they continue to be obstructed in their work. They are occasionally subjected to death threats as well.

Corruption is not adequately prosecuted but from time to time receives critical public attention. Civil rights are essentially guaranteed, though socially disadvantaged population groups are in fact often barred from asserting their basic rights to justice. During the evaluation period there were isolated instances in which the National Police killed civilians or maltreated demonstrators.

3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: The democratic institutions operate essentially according to their functional purposes, although the judicial system lacks authority, reliability and political independence. After a long period during which powerful veto actors, chief among them the army, had obstructed the democratization process, the relevant political and social actors have come to accept the legitimacy of democratic institutions. However, a climate of political mistrust between government and opposition prevails.

(2) *Political and social integration*: In the ten years following the 1992 peace accord, ARENA and FMLN were the primary contending political parties, and the party system demonstrated a moderate degree of fragmentation, with a high degree of polarization and average to high voter volatility. Internal party conflicts and splits sometimes led to the founding of new parties. Attempts to position an attractive alternative in the political center have had only limited success up to now. The parties' internal structures remain to some extent personality-based and pre-democratic in character, and they have bad reputations among the population. Their social anchoring is partially based on patronage networks. The opposition is limited in its ability to provide political alternatives to those who are dissatisfied with the government.

There is little confidence in the political institutions and in the political elite. According to surveys by *Latinobarómetro*, democracy's once high level of public approval declined considerably during the evaluation period and is now regarded as low. Political protests do not, however, tend to call the constitutional framework into question. In the past years they have been directed against, among other things, a failure to adequately honor the peace accords, privatizations or privatization efforts, especially in the healthcare sector, and against layoffs in the public sector; or they have been associated with conflicts in the transport industry.

With the neo-liberal policies and the unions' loss in significance during the 1990s, the topography of interest groups has thinned out and is entrepreneur-heavy. The powerful entrepreneurial organization *Asociación Nacional de la Empresa Privada* (ANEP), in particular, exerts considerable influence on the policies of the ARENA government. On the whole, the degree of organization among citizens is low. Civil society, which lost in significance during the 1990s, is comparatively weak, but is once again making a rudimentary start towards organizing itself, as example of the *Foro de la Sociedad Civil* shows. The most recent mass protests against privatization plans in the healthcare sector were supported by broad segments of society.

3.2 Market economy

3.2.1 Level of socioeconomic development

Social exclusions are quantitatively and qualitatively very pronounced and structurally entrenched. Despite, or even partly because of, the successes in achieving macroeconomic stability, the social situation of many Salvadorans is precarious. The poverty rate, which statistically had declined dramatically in the 1990s, from 59.7 % in 1991–1992 to 44.8 % in 1998, climbed sharply again in the wake of the two devastating earthquakes of 2001 and is currently at about 51 %. Poverty is especially pronounced in rural areas. Most affected are *campesinos* and agricultural workers with little or no land, whose social situation is sometimes severe.

3.2.2 Market structures and competition

Since the 1990s the Salvadoran market economy has been characterized by great liberality, and it enjoys a favorable reputation among advocates of a neo-liberal economic regime. The extent of state intervention in the economy is small. The government regulates market competition in an entrepreneur-friendly manner and endeavors to reduce bureaucratic overhead, particularly for foreign companies.

According to the Investments Law of 1999, foreign investors receive the same treatment as domestic investors and may engage in entrepreneurial activity in nearly every sector, with the exception of sea fishing. However, there is no coherent or effective anti-monopoly policy. Despite numerous legislative initiatives over the past ten years, a law for regulating free competition (*Ley de Libre Competencia*) that could check the formation of monopolies or oligopolies has yet to be passed.

Foreign trade has been liberalized to the fullest extent possible. Protectionism exists to only a small degree, for instance via non-tariff barriers in the agricultural sector by means of sanitary regulations. Cheap imports of subsidized agricultural products, for instance from the United States, do, however, distort the market for domestically produced basic foodstuffs. The banking system and capital market have expanded and differentiated since the reprivatization of the financial system initiated in 1991, and they are internationally competitive. Salvadoran banks are financially the strongest and most active in Central America, and by Latin American standards, the country's two largest banks are in very good shape.

Under the modern Banking Law of 1999, foreign and domestic banks receive equal treatment and are allowed to offer a broad range of financial services. Ten of the twelve banks are in private hands.

3.2.3 Stability of currency and prices

Control of inflation is an established economic policy goal. El Salvador has one of the lowest rates of inflation in the region. During the evaluation period, inflation reached maximums of 4.2 % in 1998 and 4.3 % in 2000. It even had a negative value in 1999, and stood at only 1.4 % in 2001 and 2002. On January 1, 2001, El Salvador adopted the US dollar as a parallel currency to the domestic colón (*Ley de Integración Monetaria*), at the fixed exchange rate of 8.75 colón to one US dollar that had been in use for some years. The “dollarization” of the country was made all the easier by the fact that the Salvadoran economy is closely linked to the American economy and had already been receiving nearly \$2 billion annually in remittances from Salvadorans living in the United States (*remesas familiares*).

The dollar has almost entirely replaced the national currency, despite protests against dollarization and an unsuccessful constitutional challenge from the FMLN. Although continuous efforts are being made toward a stability policy, public debt, which grew partly as a result of reconstruction in the wake of the 2001 earthquakes, has increased considerably during the last two years. Only the transfer payments from Salvadorans living abroad can save the balance of payments situation.

3.2.4 Private property

Property rights and the regulation of property acquisition are in principle defined by law. Various problems exist in the agrarian sector, however. First, land tenure conditions have not been sufficiently clarified in some villages within former conflict areas. Second, redistribution of surplus land, more than 245 hectares, to the landless, as provided for in the constitution and in the peace accord, did not occur before 1999, when a start was made in response to national and international pressure. Third, an agricultural code has yet to be drafted or implemented that would clearly regulate land access rights.

Moreover, given rampant crime and the weakness of the judicial system, property rights are inadequately protected from encroachment. Crime has a detrimental effect on entrepreneurial activity, and the threat of armed theft and abductions for ransom was omnipresent during the evaluation period.

The government regards private companies as the primary vehicle for economic productivity. The government has been particularly receptive toward foreign companies, and it seeks to improve the investment climate by upgrading infrastructure, passing appropriate legislation, creating economic incentives and garnering public recruitment of and support for foreign companies. Foreigners enjoy state protection of property rights and have the right to do with their own goods as they see fit. Unhindered export of capital and earnings is legally assured.

As a result of privatizations and allocations of concessions, more and more room has opened up since the 1990s for private companies in formerly state-regulated economic sectors. ANTEL, the formerly state-owned telephone company, is now largely in private hands. Numerous state-owned power plants were sold to private operators at the end of the 1990s. Parliament passed a law in September 2002 that allows the national harbor administration to allocate future concessions to private companies.

3.2.5 Welfare regime

While some parts of the El Salvadoran population can rely on the existing yet limited social safety nets, many others live with the constant threat of poverty. Poverty and underemployment are particularly widespread in rural areas, where the vast majority of the population is not socially insured. Social assistance measures were especially inadequate for public housing construction following the devastating earthquakes of 2001. Serious deficiencies are also evident in the public healthcare sector. Plans by the government to privatize the healthcare system met with massive public protests. The society is highly segmented socially and there continue to be marked disparities in income. The GINI index has maintained approximately the same level since 1990.

Women have access to higher education and public office, but are exposed to numerous political, economic and social disadvantages. During the evaluation period, the proportion of women in the government cabinet increased (1994–1999: 11 % of both ministers and vice ministers; 1994–2004: 23 % and 12 %, respectively), but declined in Parliament from 16.7 % (1997–2000) to 9.5 % (2000–2003). The proportion of women in party leadership positions was 17 % in 1999 (e.g., 32 % for the FMLN, 7 % for ARENA). Domestic violence against women remains a largely taboo subject.

3.2.6 Strength of the economy

Economic growth leveled off during the period of evaluation. Per capita GDP growth stagnated in 2000, 2001 and 2002. With the exception of the low inflation rate, most of the macroeconomic data present a negative picture, in particular the trade deficit and debt figures. External debt, which stood at \$3.3 billion in 2002, increased by roughly \$500 million after the 2001 earthquakes alone. Of great economic importance are the transfer payments from some 2.5 million Salvadorans living abroad, primarily in the United States. These transfers, which amounted to approximately \$1.9 billion in 2002 nearly \$2 billion in 2002, almost offset the entire trade deficit. In view of the huge informal sector, the official unemployment rate, 7.1 % in 2002, is little more than a statistical value. According to estimates, hidden unemployment and underemployment are between 30 % and 40 %.

3.2.7 Sustainability

The environment in El Salvador is highly vulnerable. More than half of the country is affected by soil erosion. This problem, however, is not a major topic in El Salvador, because economic growth takes precedence over environmental protection, and despite various state programs, it is more likely to suffer political neglect. Facilities for primary, secondary and higher education exist, and while the overall quality varies, private education is deemed to be of much better quality than public education. Despite some successes in, for example, the reduction of illiteracy and an increase in school enrollment, clear educational deficiencies continue to exist, especially in rural areas. Many schools were destroyed by the earthquakes of 2001. Although educational expenditures as a share of GDP have increased considerably from 3.1 % in 2001 and 3.2 % in 2002, compared with 1.7 % in 1992 when the peace accord was signed, they are relatively small by Central American standards.

4. Trend

(1) *Democracy*: State identity, political participation and rule of law have essentially maintained their existing qualitative levels. The democracy's degree of consolidation has not changed significantly. The vast majority of problems confronting Salvadoran democracy at the beginning of the evaluation period continue to exist. There have even been setbacks in certain areas. According to surveys, the approval rate for the democratic form of government has declined. In addition, the office of Ombudsman for Human Rights, founded in accordance with the 1992 peace accord, has suffered damage to its reputation as a result of a controversial appointment during the years 1998 to 2001.

(2) *Market economy*: As measured against the HDI, the country's developmental status changed only insignificantly between 1998 and 2000. Rather than being mitigated, blatant social exclusions were in fact aggravated here and there. The basic institutional conditions for market activity have improved, especially for large foreign companies, most of all in the areas of service, finance and outward processing trade (*maquila*). Agriculture, by contrast, is in serious crisis. Overall economic development stagnated during the evaluation period, although the country had to overcome not only the two devastating earthquakes of 2001, but also a coffee crisis. Since 2000 there have been dramatic declines in the production and export of coffee, whose economic importance, however, is declining.

Table: Development of socio-economic indicators of modernization

	HDI	GDI	GDP index	Gini index	UN Education Index	GDP per capita (\$, PPP)
1998	0.696	0.693	0.62	50.8	0.73	4,036
2000	0.706	0.696	0.64	52.2	0.74	4,497

Sources: UNDP: Report on Human Development, 2000, 2002.

Table: Macroeconomic data (1998–2002)

	1998	1999	2000	2001	2002
Growth of GDP in %	3.8	3.4	2.1	1.9	2.3
Growth of GDP per capita in %	1.6	1.3	0.1	0.0	0.4
Inflation rate in %	4.2	-1.0	4.3	1.4	1.4
Reported urban unemployment in %	7.6	6.9	6.5	7.0	7.1
Budget deficit as % of GDP	-2.0	-2.1	-2.3	-3.6	-2.7

Source: CEPAL, *Balance preliminar de las economías de América Latina y el Caribe*, December 2002.

5. Transformation management

5.1 Level of difficulty

El Salvador is one of the “middle income countries.” Despite some success in achieving macroeconomic stability, most notably the low rate of inflation, the economy has serious problems such as faltering economic growth, large trade deficits, and growing debt, just to name a few. It is highly dependent upon the inflow of money from external sources, including *remesas familiares*, aid and loans, and it is susceptible to internal and external shocks in the form of natural disasters, coffee crises, etc. Marked social inequality and formidable public problems, widespread poverty in particular, present difficult conditions for any developmental or transformational management.

In 2002 the UN Education Index stood in the middle range at 0.74. Ethnically the society is largely homogeneous. The prevailing social fault lines are primarily defined by political and, above all, social factors, rather than ethnic factors. The country has a civic tradition. Civil society came into the picture with increased political strength at the beginning and toward the end of the civil war, waned somewhat in significance during the 1990s, and was regaining some of its strength during the evaluation period. If in the past it ran the risk of being exploited for

partisan purposes, today civil society faces the challenge of reaching the political elite with its concerns. The degree to which the rule of law has been established must be regarded as low, if only because of the weakness of the judicial system and the unresolved *impunidad* problem. The political institutions are stable, but limited in their effectiveness and insufficiently responsive to the interests of the majority of the population.

5.2 Reliable pursuit of goals

The government has embraced neo-liberal goals. It is not only pursuing a cohesive liberal economic policy, but is also committed to privatization and a free market, is making strenuous efforts to attract foreign capital, and is granting strategic priority to both the economic development in the service, financial and outward processing trade sectors. The government is also striving toward a Central American free trade agreement with the United States. It is not pursuing an agrarian policy that recognizes agriculture as the basis for a rural development strategy, although such a policy might play a crucial role in overcoming social problems, given the marked poverty and underemployment in rural areas. Also lacking is a reform policy that aims not only to ensure the continued formal existence of democracy or to open up a market economy, but also rigorously implements principles of democracy and the rule of law, which in turn would counteract the social exclusion of large sections of the population.

The ARENA governments have, to date, neglected the social aspects of a market economy. So far, the government has remained largely true to its economic policy course, in spite of public protests, and has been pursuing an entrepreneur-friendly policy that supporters and adversaries alike find predictable. However, the country is susceptible to natural catastrophes such as earthquakes and drought, as well as foreign economic fluctuations such as falling coffee prices, rising oil prices or a decline in economic growth in the United States.

5.3 Effective use of resources

The government uses but few of its available resources in an efficient manner. In terms of revenue, the governments have so far succeeded in encouraging the inflow of financial assistance and loans, especially after the 2001 earthquakes. Direct foreign investment also increased continuously during the Flores administration. Mexican and Taiwanese companies have become the most important investors, the latter primarily in the area of outward processing trade.

Tax legislation was reformed in 2001. However, the tax base is narrow and revenues cover only a portion of public expenditures. As part of the government's attempt to "modernize" the state and reduce the budget deficit, thousands of employees were dismissed from public service, some 8,000 of them at the

beginning of 2002 alone. Further dismissals in the public sector are to be expected. Salaries for public service employees have occasionally been frozen. The budget deficit moves within manageable limits and, after a temporary rise to 3.7 % of GDP in 2001, was successfully brought down again. The public debt in the meantime grew to 37.7 % of GDP in 2002. Debt service claims about a fifth of the public budget.

Government-provided services tend to favor those economic areas that the government has identified as a priority for stimulating the country's economic development. Large business and political interests are thus tightly interwoven, and the government has been pursuing a highly entrepreneur-friendly economic policy. Open corruption remains limited. Appointments to the Auditor General's office (*Corte de Cuentas*) are a political issue and the subject of partisan debate.

From a political point of view, the transformational process benefited from what was learned in the peace process, which in turn enabled the formerly hostile civil war factions to work through their conflicts on a political level. However, there is still great political mistrust between government and opposition. From an economic point of view, the country benefits from the strong work ethic that is traditionally ascribed to the Salvadorans. By Central American standards, Salvadorans are considered to be diligent and highly trainable workers, a fact that benefits the investment climate.

5.4 Governance capability

The government is holding firm to its adopted course, believing that this, along with backing from the international donor community, is the sensible way to bring economic progress to the country and attack its social problems in the medium term. In principle the government has sufficient political authority to implement its policies, and as a rule has ignored social protests up to now. Privatization in the public healthcare sector, however, has met with massive and so far unbroken social opposition. Not all economic sectors have profited equally from the distributive effects of the economic policies. Compared with the outward processing line of business, the agrarian sector, which is currently being buffeted by coffee and sugar cane crises, has been particularly neglected by the government.

5.5 Consensus-building

The essential political actors have declared their support for democracy and a market economy, although government and opposition differ greatly on their social orientation. Although the government's neo-liberal economic course contributed to a certain macroeconomic stabilization, it preserved or even deepened existing political and social fault lines. The incomplete implementation

of the 1992 peace accord has led to persistent tensions between the government and the political and civic opposition. The government's ability to engage in dialog with the opposition, whether inside or outside of Parliament is limited.

Government policy does not work toward encouraging a spirit of solidarity either. The government is only partially able or willing to take on the pressing social problems of the socially deprived majority of the population, and it denies or rationalizes historical injustice. The responsibility of formerly high-ranking ARENA politicians for the politically motivated murders of prominent peace and human rights champions (e.g., the murder of Archbishop Romero in 1980, or the murder of Jesuits in 1989) has been denied. Because of its own violent past, even the opposition, the FMLN, has shown little willingness to push for punishment for earlier human rights crimes. In stark contrast, civil society is demanding on a national and international level that the amnesty law of 1993 be abolished and that the publicly known human rights violations of the past be punished. The greatest barrier to reconciliation is, in the view of those affected, the *impunidad*.

5.6 International cooperation

The government uses international assistance specifically in connection with the requirements of its transformation and cooperates closely with the international community of nations in the economic and development policy area. The government is categorized internationally as reliable and predictable. Despite a rise in the public debt over the past years, the country enjoys a positive image as a debtor. Even after the earthquakes of 2001, it sought neither remission nor rescheduling of its debts.

The government has actively sought to create and deepen international cooperative efforts, and it has entered into bilateral trade agreements with countries such as Chile, the Dominican Republic, Mexico and Panama. It is committed to further Central American integration and is making particular efforts, together with the other Central American states, toward free trade agreements with the EU and the United States, to which overly high hopes are attached. But in the area of human rights, the government has steadfastly ignored the recommendations of the Inter-American Human Rights Commission.

6. Overall evaluation

In view of the originating conditions, current status and evolution achieved, as well as the actors' political achievements, this assessment concludes the following:

Even before the evaluation period, El Salvador had liberal-democratic institutions and an extensively liberalized market economic regime that, however,

demonstrated considerable deficiencies with respect to the rule of law, socio-political grounding and social orientation. In the political arena there was no fundamental improvement in the democracy's level of quality or consolidation during the observation period. The judicial system's structural weakness was not overcome.

Though the political actors abided by the rules of the game, mistrust between government and opposition persisted. The population still has little confidence in the politicians, their parties and democratic institutions, but an acute threat to democracy is not discernible. With respect to the economy, the degree of economic liberalization increased, but the social components of a market economy were further neglected.

During the evaluation period, the ARENA governments showed themselves capable of both continuing to liberalize the market economy and assuring some degree of macroeconomic stability under difficult conditions. However, the political actors did not manage to move national reconciliation forward, build up trust in the democratic institutions, remedy the democracy's deficiencies with respect to the rule of law, or deal with the country's serious socio-economic problems. The one-sided orientation of government policy toward the interests of large entrepreneurs proved to be socially unbalanced and was not suited to mitigating marked social disparities and exclusions.

7. Outlook

Stabilizing and consolidating democracy and a market economy in El Salvador is closely linked to the question of how far politics, the economy and society are able to move toward a solution for the country's political, socio-economic and rule of law problems. Creating a functional judicial system, stemming rampant crime by legal means, overcoming the culture of impunity, and modernizing the political parties and democratic institutions are as much open challenges as overcoming persistent economic problems and, most of all, effectively fighting poverty and underemployment.

Economic policy should look beyond large foreign and domestic companies and attach greater strategic importance to small and medium-size businesses and agriculture, as these are still of the greatest importance for creating jobs and, in the process, fighting poverty.