

EL SALVADOR

Strategy Paper

2002-2006

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EL SALVADOR AT A GLANCE



Official name:	Republic of El Salvador
Capital:	San Salvador
Surface area:	21 040 square km
Population:	6.3 m (average annual growth 2.0%)
Official language:	Spanish
Currency:	Colon (1 US\$ = 8.75 colons)
Nature of the State:	Presidential Republic Unicameral Legislative Assembly or Asamblea Legislativa (84 seats; members are elected by direct popular vote to serve three-year terms)
Head of Government (President):	Francisco FLORES (ARENA)
Next presidential and legislative elections:	March 2004; March 2003
Principal political parties	
ARENA - National Republican Alliance	28 seats
FMLN Farabundo Marti National Liberation Front	31 seats
PCN - National Conciliation Party	14 seats
PDC - Christian Democratic Party	5 seats

	1990	1999	2000
Real GDP (% growth)		3.4	2.0
GDP (€ billion)	4.8	12.5	13.2
GDP per capita (USD)	1 000	2 026	2 105
Inflation rate (%)	24.1	0.5	2.3
Current Account Balance		-286	-418
Consolidated Central Government (USD million)		-267	-304
Overall Trade Balance (USD million)	-680	-1516	-1996
Foreign reserves (USD millions)	399	2,004	1,922
Total debt, outstanding and disbursed (millions \$)	2,148	4,014	4,306

Sources: World Bank, Central Reserve Bank of El Salvador

Executive Summary

This Country Strategy Paper forms part of a continuous process of management of European Commission cooperation with El Salvador. It is a key element in the improved programming process introduced in the reform of the management of external assistance, which is expected to lead to greater coherence between the EU's strategic priorities and to the appropriate policy mix for each partner country. The strategy is based on El Salvador's own development agenda as well as on the Commission's cooperation principles and the Memorandum of Understanding signed with El Salvador in March 2001. In addition, it builds on the prior country strategy covering the period from 1998 – 2000. For the period 2002 – 2006, the Commission's cooperation programmes with El Salvador will focus primarily on the three priorities of modernisation and decentralisation of government, local development and support to the productive sector. An indicative amount of €60 million has been allocated to these priority sectors under the Memorandum of Understanding. These resources will be complemented by projects funded from specific budget lines as well as programmes financed under the Central American and Latin American regional programmes. The final selection of projects and funding amounts will be based on the results of the detailed identification and preparation work organised by the Commission. The indicative work programme is conditional on the availability of resources from the Commission's annual budget.

1 OBJECTIVES AND PRINCIPLES OF COMMUNITY COOPERATION WITH EL SALVADOR

1.1 Overall objectives

The Community's cooperation policy is set out in general terms in **Article 177 of the EU Treaty** which lays down the following three priority objectives:

Support for sustainable economic and social development;

Gradual integration of the developing countries into the world economy;

The campaign against poverty.

The **Joint Statement by the Council of Ministers and the European Commission on the Community's Development Policy** (November 2000) requires the European Union's cooperation to focus primarily on the reduction and gradual eradication of poverty. This covers: the link between trade and development, support for regional integration and cooperation, support for macroeconomic policies and equal access to social services, transport; food security and rural development, and institutional capacity-building, particularly in the area of good governance and the rule of law.

1.2 Regional cooperation objectives

The specific cooperation objectives and principles applicable to the Latin American and Central America regions are laid down in **Council Regulation (EEC) No 443/92 of 25 February 1992** on financial and technical assistance. This regulation gives priority to strengthening the cooperation framework and to the promotion of sustainable development and social, economic and democratic stability by means of institutional dialogue and economic and financial cooperation.

In 1995, in a communication entitled "The European Union and Latin America – the present situation and prospects for closer partnership 1996-2000" (COM(95)495), the Commission emphasised the need for a range of differentiated approaches in Latin America in line with national and subregional circumstances. In the guidelines laid down in the Commission communications of March 1999 on a new European – Latin American partnership (COM(99)105), and on the follow-up to the Rio summit of 1999

(COM(2000)670), the Commission emphasised the goal of strengthening partnership and proposed to step up its action in the three priority areas of promotion and protection of human rights, promotion of the information society, and reduction in social imbalances, and to include the priorities agreed upon in bilateral and subregional dialogues.

The policy guidelines for cooperation with El Salvador are governed by the overall guidelines agreed of the **San José meetings** between the EU and the countries of Central America (El Salvador, Costa Rica, Guatemala, Honduras, Nicaragua and Panama) which have been, since 1984, the primary forum for dialogue between the two sides and the purpose of which is to support the process of peace and democratisation in the region. This dialogue, which was renewed in Florence in 1996, has laid down the following general objectives for future cooperation with the countries and the region: to promote viable and equitable economic and social development; to step up the fight against insecurity and crime; to promote the consolidation and modernisation of the rule of law; to strengthen social policies.

In the case of El Salvador, these guidelines must be seen against the backdrop of the process begun with the **Chapultepec Accords**, signed in January 1992 in Mexico City, which put an end to the armed conflict and opened the way to a new era of reconciliation, democratisation and economic and social development.

In addition, the **Stockholm Regional Consultative Group** (1999) to assist Central American countries affected by Hurricane Mitch also drew up a set of guidelines and objectives for the reconstruction of the region, including the reduction of the ecological and social vulnerability of the region, the need to reconstruct and transform Central America on the basis of an integrated analysis, founded on transparency, good governance and democracy, with greater decentralisation of government functions and the active participation of civil society.

The current framework for development cooperation and economic activities is provided by the **regional framework agreement on development cooperation** of 1993, agreed between the six aforementioned countries of Central America and the Commission and which entered into force in 1999. This "third generation" agreement covers a wide range of sectors and provides for the establishment of a joint board (the most recent meeting of which took place in Guatemala in March 2001) and of subcommittees to oversee its implementation (the most recent meeting of the subcommittee for development cooperation took place in Managua in April this year).

Finally, this presentation of cooperation with El Salvador would not be complete without mentioning the **Generalised System of Preferences** (GSP) which is a unilateral system of trade preferences in favour of the countries of Central America. Under the special provisions relating to drugs, the EU renewed the tariff conditions granted in respect of certain agricultural products and extended to Central America the specific preferences for industrial products granted to the Andean countries. The system was renewed in December 2001 until the end of 2004.

1.3 Bilateral objectives

In March 2001 the European Commission and the El Salvador government signed a **"Memorandum of Understanding"** (MoU) providing for assistance of €60 million from the budget lines for financial and technical cooperation and economic cooperation for the period 2000-2006: modernisation and democratisation of the State and security of the citizens (27% of the total), socioeconomic development in the rural sector (22%), support for environmental sustainability (18%), health (14%), development of the private sector (13%).

In addition, at the meeting of the **Consultative Group in Madrid** in March 2001, the international community agreed a series of measures with El Salvador to help with the process of reconstruction following the earthquakes of January and February 2001.

2 AGENDA OF THE EL SALVADOR GOVERNMENT

The plan of the **Nueva Alianza** government for the period 1999-2004 is based on four core strategies:

- Alliance for work: aimed at generating employment and income, agricultural development, support for small and micro businesses, for exports and for investment.
- Alliance for solidarity: aimed at generating jobs and income at local level and, at the same time, improving access to and the quality of basic services by strengthening social participation and decentralising government.
- Alliance for security: aimed at reducing insecurity and crime.
- Alliance for the future: aimed at the sustainable development of a competitive economy in harmony with the environment.

In order to implement this plan, the government is proposing an "alliance" with local authorities and citizens; the development of transparent, efficient and result-based public administration; more effective tax collection and better utilisation of public resources as well as the restructuring of the budget in line with the country's priorities.

The government subsequently supplemented these policy guidelines with two further initiatives. In November 2000, the current President, F. Flores, personally launched a proposal entitled "*Acciones Territoriales*" contained in the "**Plan de Nación**" (PN), which is aimed at reducing the backwardness and poverty of rural and urban areas. This document, which was published by the National Development Commission (CND) following a lengthy process of consultation at national level, contains a land development plan covering five principal areas of intervention: communications, the productive environment, the productive economy, the system of cities and municipal association or integration.

In March 2001, at the meeting of the Consultative Group in Madrid, the government of El Salvador presented a "**Plan de Recuperación**" (*Recovery Plan*) aimed at alleviating the consequences of the earthquakes of 13 January and 13 February 2001 and, in the medium term, relaunching sustainable development and the country's economy and, in the long term, overcoming its vulnerability to natural disasters. The specific objectives of this plan, which covers the period 2001-2005 and which is designed to fit in with the strategy devised by La Nueva Alianza and with the Plan de Nación, are as follows:

- Repairing damage to the education and health sectors and re-establishment of social networks;
- Reconstruction of housing, reactivation of productive capacity and infrastructure;
- Reduction of vulnerability to natural disaster and rational use of natural resources;
- Promotion of sustainable development, based on greater participation and integration of the local economies;
- Reduction of migration to the interior and abroad.

It also sets out a list of structured measures in an indicative timetable with three phases: emergency, short-term rehabilitation (to 2001) and medium-term reconstruction (2002-2005).

3 ASSESSMENT OF THE SITUATION IN EL SALVADOR

3.1 Political situation: a democracy in the process of consolidation

After a bitter civil war which continued right through the 80s, **the Peace Accords of January 1992 marked the beginning of a process to transform** a system of repression, authoritarianism and exclusion into one of democracy, competition and inclusion. The achievements worth highlighting include the demilitarisation of public life and society, greater public freedoms and an electoral system that allows competing political parties. These achievements are underpinned by the setting-up of important institutions such as a national police force and an office to defend human rights.

Notwithstanding the significant (and internationally recognised) progress, the process of political rebuilding must still have some way to go. While the demilitarisation process has been successfully completed, the public image of many of the new institutions, such as the system justice or the national civil police, has not yet been fully established.

- As far as the electoral system is concerned, the rules and institutions of competition that were introduced produced an **alternation of power** in many municipalities, including the largest and symbolically the most important, the capital San Salvador, and within the legislative body (the largest number of seats in the National Assembly is held by the main opposition party - FMLN). Otherwise, pluralism has been maintained although the country is also characterised by a **high degree of polarisation** between the two dominant parties ARENA (the party of government) and the FMLN, the parties formed by the opposing sides in the armed conflict. In this situation, **differences of opinion reflect the socioeconomic and political model** advocated by the country's main political forces, and this debate has slowed down the consolidation of democracy by generating uncertainty for economic and social actors.
- The most important challenge is probably that of law and order. Various reasons are put forward to explain this phenomenon: the aftermath of the war, the culture of impunity and the precarious rule of law, the loss of the fundamental values on which coexistence in society is based, poverty and lack of opportunities, a "culture of violence" and the influence of international organised crime.
- There is also a need to bolster both the effectiveness and the **credibility of key institutions**, both representative (legislative authority and party system), governmental (executive authority to have real power to provide stability and security for the whole of society) and judicial (courts, human rights "procuraduría"). The judicial system is independent but still suffers from an image of inefficiency and corruption.
- **The representation and involvement of civil society** are vital in a country which, like El Salvador, is still in the process of democratic consolidation and where there has been a **decline in voter turnout** (down from 48.6% in 1994 to 33.2% in 2000). In socioeconomic matters, with the exception of private-sector companies, civil society has **little input into the formulation of public policy and the monitoring of government activity**. Moreover, an estimated 25% of the population lives abroad and is not represented in the political system because it does not take part in the electoral process. The **centralisation of government activity** and the **lack of organisation of civil society** further exacerbate this deficiency.
- Despite this, a counter trend has been emerging **at local level** where **consultation between the government and civil society**, together with citizen participation, are now items on the national agenda which are being gradually implemented in the form of participation and consultation forums for local development (municipal or local development committees), in various instances of participatory planning and

management of local development, in local civil society initiatives for disaster prevention, in Salvadorian emigrant associations for local development etc.

- In any event, it should be pointed out that democracy in El Salvador is still in the consolidation phase and that democratic habits still need time to put down roots. In this regard, there is a welcome development on the part of the various political forces to exercise greater moderation and responsibility in political debate.

3.2 Economic and social situation

3.2.1 Economic context

Despite its size – it is the smallest country of Central America – El Salvador has been showing signs of quite remarkable dynamism compared with its neighbouring countries. Gross Domestic Product (GDP) (USD 13.2 billion in 2000) and per capita GDP (USD 2 105 in 2000) have doubled in 10 years, making El Salvador a **middle-income country**.

- The structure and behaviour of the Salvadorian economy in terms of GDP, exports and employment creation, is currently characterised by an **increase in manufacturing activity** (especially of *maquila*¹ operations) and a **gradual decline in the importance to the economy of traditional agricultural production** (particularly coffee).

Source: World Bank

GDP breakdown	1990	1999	2000	US\$ million	1990	1999	2000
Agriculture (%)	17.1	10.7	10.1	Exports	861	3,135	3,646
Industry (%)	26.2	29.1	30.2	Imports	1,462	4,651	5,642
(Manufacturing)	(21.7)	(22.5)	(23.4)	Balance	-601	-1,516	-1,997
Services (%)	56.6	60.1	59.6	Remittances	322	1,373	1,750

- Since 1990 El Salvador has endeavoured to conduct a **transparent and very open trade policy**, in the belief that free trade is key to long-term economic growth. Given this policy, between 1990 and 2000 total trade volumes increased together with a **chronic trade deficit, equal to 15% of GDP** in 2000. This deficit has been mainly due to the rise in imports for the *maquila* sector and of consumer goods and by a decline in traditional exports. **This trend has been offset by remittances**, principally from the US, which have formed the main support for the key macroeconomic indicators, such as the balance of payments and exchange rate stability.
- In terms of **overall trends**, the past decade has seen **the Salvadorian economy go through two phases. Until 1995, the economy expanded rapidly**, with annual growth rates of over 6%. Inflation consistently exceeded 10% but remained manageable. This period also saw the introduction of far-reaching structural reforms in the economy, including the liberalisation of trade and capital flows, the privatisation of state enterprises, banks and property, pensions reform, deregulation and the adjustment of tariffs and prices.
- In the second part of the decade, the impact of the reforms lessened: economic growth slowed (to 2% in 2000) as did foreign direct investment, although inflation fell to single figures. The consumer price index for 2000 was just 4.3%, compared to an average of 9.4% in the '90s. The reasons for this slowdown were both internal (growth problems in individual sectors such as agriculture, the budget deficit, a fall-off in domestic demand and a decline in the country's international competitiveness,

¹ Maquila: a term first used in Mexico and now used throughout Latin America for factories located in tax-free and duty-free zones where the final stage of production takes place for goods bound for the markets of the developed world.

the need for a new generation of reforms – such as regulation of the privatised sectors, the introduction of competition rules) and external (falling coffee prices, rising oil prices, the economic crisis in Asia, the effects of Hurricane Mitch).

- Despite these trends, El Salvador confirmed its high level of macroeconomic and monetary stability with a level of external indebtedness (estimated at 20-25% of GDP) among the lowest in Latin America, low inflation, ample foreign reserves and an exchange rate that has remained steady over the last 5 years. At the beginning of 2001, two very different events occurred, both of which had profound economic and social repercussions for Salvadorian society as a whole:
- The entry into force on 1 January 2001 of the **Economic Integration Act which made the US dollar legal tender** alongside the national currency. In addition, the use of the US dollar was made mandatory in the national financial system, both public and private. The main impact of this measure is expected to be a significant reduction in interest rates and a greater inflow of foreign investment due to the elimination of the exchange rate risk. It will also mean a loss of flexibility in the management of the country's economy (now that interest rates and exchange rates can no longer be used as tools of economic policy).
- The devastating consequences of the earthquakes of 13 January and 13 February 2001 brought about a significant downturn in economic activity in the country and an increase in public spending and foreign borrowing in order to finance reconstruction work. This has impacted on a budget deficit which had been widening over the previous 5 years (it was estimated as 3% of GDP in 2000) and led to a reduction in tax receipts, which had never exceeded 11% of GDP throughout the period 1990-2000).

The EU is El Salvador's third largest trading partner (€936 million in 2000, 11.2% of all imports + exports) after the **US (48.4%)** and the **countries of Central America (19.3%)**. **The European Union's principal import category is agricultural products** (83.8% of the total) and its main export categories are transport (45.3%), power generation (18.2%) and chemicals (10.2%). The leading European trading partner is Germany (4.5% of total trade in 2000). The statistics reveal a **declining trend in trade flows between El Salvador and Europe**, reflecting the fall in coffee prices and the substitution of European industrial goods with those of other suppliers². In contrast, European investment has increased in significance in the last five years, both in terms of quantity and quality, being concentrated above all in the services sector: telecommunications, tourism, pensions, insurance etc. Exports from El Salvador to Europe under the **Generalised System of Preferences** (GSP) amounted to €370 million in 1997. Virtually the entirety of goods exported fell under the "agricultural" part of the system (principally frozen shrimps, coffee and leather). Despite an increase of 55% in 1996, the GSP is still a little-known or little-used instrument in El Salvador and this confirms the inability of the trading sector to diversify its markets.

3.2.2 *The social dimension*

With an area of 21,041 km² and a total population of 6.3 million, El Salvador is the **most densely populated country of the entire American continent** with 300 inhabitants per km². The average age of the population is 20.7 years. 60% of the population is concentrated in the urban areas and, in ethnic terms, unlike other countries, such as Guatemala for example, **the country is very homogeneous**: 90% of the population is mixed-race and just 5% is of indigenous origin. On the whole, in recent years there has been a **positive trend** in terms of access to social services (education, healthcare, drinking water etc.). According to the ranking compiled by the UNDP in its Human

² The statistics on foreign trade with Europe may be underestimated. Because of the various arrangements and routes involved, the figures may fail to reflect some trade transiting through third countries.

Development Report (HDI) for 2001, El Salvador was 95th of 164 countries and fell into the group of **countries with medium human development**. The percentage of the population living in poverty dropped by 25% over the course of the 90s. In 1999 it was 47.5%. **Despite this progress, major problems remain:**

- El Salvador has one of the **highest rates of inequality in the world** in terms of income distribution. The richest 20% of the population receives 18 times the income of the poorest 20%. On the GINI index for 1999, the country lies between (50.8) between Nigeria and Papua New Guinea but ahead of Guatemala (55.8), Honduras (59.0) and Nicaragua (60.3).
- **The geographical disparities** in terms of human development between the different regions of the country, between the urban and rural population, and between the sexes are as great as those that separate the developed world from the least developed countries.
- As for **health**, El Salvador still lies below the average for Latin America and its neighbouring countries (for example, in terms of infant and maternal mortality, life expectancy, respiratory infections and chronic malnutrition, , immunisations for diseases such as cholera, HIV, AIDS).
- Another of the major challenges facing Salvadorian society is **demographic pressure** in a fairly poor country, where land is scarce and the terrain mountainous.
- As for vulnerable groups and gender issues, the UNDP reports that **for children and women**, in particular, **adequate measures to improve their living conditions have yet to be adopted**, as shown by the various integrated development indicators.
- Probably one of the most significant **social issues facing the country is migration**, which has continued unabated since the 80s driven by poverty, the civil war and overpopulation. The statistics show nett emigration running at 10 000 a year. The government estimates the emigrant population at 2.5 million, 2 million of whom are believed to live in the United States. Figures from other sources are lower, however. The typical emigrant is male, from an urban area, relatively young and of above-average education. Estimates of the number of Salvadorians living abroad vary.

Various surveys show that **Salvadorians regard crime as the main problem**. A statistical table published as part of the major UNDP report on human development in El Salvador in 2001 shows that 8% of deaths are the result of homicide. In terms of Latin America as a whole, comparable crime rates are found only in Colombia and perhaps Guatemala.

3.2.3 *External and regional dimension*

El Salvador has been supportive of Central American integration right from the start in 1960. It has always made an **effort to achieve greater trade liberalisation in the region** in order to reduce costs, enhance competitiveness and promote exports.

These efforts received institutional support at regional level with the establishment in 1991 of the Secretariat General of the SICA (Central American Integration System), which is based in San Salvador.

Within the framework of the Central American Tariff System, which entered into force in 1993, El Salvador embarked on a gradual process of reducing tariffs on several

products. However, **in practice, a preference for bilateral agreements⁴ predominates**. Its demands are for liberalisation of trade in services, the improvement of road networks and port facilities and simplification of border control procedures. El Salvador recently reached agreement with Guatemala to work towards the establishment of a customs union by 2002. This will facilitate its access to Guatemala's Caribbean ports. El Salvador's involvement in the setting-up of the Free Trade Area of the Americas (FTAA) must also be mentioned:

On the subject of the new round of WTO **negotiations**, El Salvador shares the position of the majority of Central American countries, which argue for greater **liberalisation of trade in agricultural products** and have a specific interest in an extension of the tax regime. In addition, El Salvador has succeeded in **prolonging the special regime** applicable to the **tax-free zones** for several years to come, which is to the benefit of the maquila sector. Mention should also be made of the border disputes with Honduras which could affect political and trade relations between the two countries if they were to deteriorate.

3.3 Sustainability of current policies

3.3.1 Environmental vulnerability

- El Salvador is at grave risk of **progressive environmental degradation and destruction**, as demonstrated by its high indices of deforestation, soil erosion and loss of biodiversity, and levels of water pollution among the worst in Latin America. There has also been a considerable deterioration in air quality, leading to an increase in respiratory diseases. In addition, there is inadequate collection and treatment of solid waste, especially in the urban centres. The current situation and the rapid and disorderly trend towards urbanisation are adding to these problems.
- Furthermore, the impact of **natural disasters** in recent years, in particular the consequences of Hurricane Mitch and the two earthquakes of 2001, plus meteorological phenomena such as El Niño, La Niña and periods of drought have shown that the country's vulnerability is in part the result of bad environmental management, which constitutes a further obstacle to efforts to combat poverty. At the end of 1998, El Salvador was hit by **Hurricane Mitch**, which affected 6% of the population, mainly in the Pacific coast region. According to CEPAL, the damage caused was equivalent to 5.6% of GDP. Far more serious were the **two earthquakes of 2001** which severely disrupted the country's economic and social progress and put its development back by at least five years. According to estimates by UNDP and FUSADES⁵, this catastrophe affected 25% of the population, exacerbated the country's already severe housing shortage and caused substantial losses in terms of harvests, business closures, jobs, and health and education facilities. FUSADES estimates the overall cost of the two earthquakes at 16% of GDP. According to the same estimates, the number of those living in poverty increased from 47.3% to 49.7% of the population, with an increase of 2.1% in the number of those living in extreme poverty.
- Mention should also be made of the **drought** in 2001 which caused significant losses in the agricultural sector, estimated at 16% of annual output, leading to a dramatic drop in income for 25,000 families and to famine in various parts of the country. This underlines the need for structural environmental and agricultural

⁴ El Salvador has recently signed free trade agreements with Mexico, Chile, the Dominican Republic, Guatemala and Honduras. Negotiations for an FTA with Panama resumed in May 2000 and one is also being negotiated with Canada.

⁵ The prestigious Salvadoran Foundation for Economic and Social Development (FUSADES), founded in 1983 with the support of USAID, is regarded as the employers' think-tank.

management policies to be put in place, failing which the consequences of future natural disasters will be even more severe.

3.3.2 *Gender issues and equal opportunities*

According to the UNDP's Human Development Report for 2000, El Salvador ranked 80th out of 143 countries on the Gender-related Development Index (GDI), between China and Guyana, with a **particularly poor showing in terms of life expectancy and education level, especially in rural areas**. Women's representation in public life is low overall and lowest in the higher echelons. According to the findings of a recent survey, participation of women at national level is 22%. It should be pointed out, however, that **at local level**, and particularly in rural areas, **women's participation has been rising (see indicators in Annex 4a)**.

3.3.3 *Socioeconomic sustainability and poverty reduction*

- The challenge of poverty reduction in El Salvador is, in the medium term, highly dependent on the **success of short-term policies** aimed at dealing with the consequences of the natural disasters of recent years, in other words, reconstruction and re-establishing the basic pre-requisites needed for development. Once the country has come through this phase, the government can then really concentrate on its long-term objectives. However, looked at from a different angle, reconstruction and the considerable financial assistance that will be provided by the international community over the coming years⁶, represent a unique opportunity that could be used by the Salvadorian government to enhance the country's development prospects. The challenge would be to **respond to an increase in public investment in reconstruction** and in the social sectors **while maintaining a balanced fiscal policy** and without increasing borrowing and undermining overall macroeconomic stability.
- From an economic standpoint, while the Salvadorian economy's macroeconomic indicators are favourable, its **vulnerability to the vagaries of the American economy** has heightened, so that a more severe downturn in the US will have repercussions not only for the inflow of remittances, which are vital to the country's macroeconomic equilibrium and a key source of social protection in the form of intrafamily support, but also for the export of *maquila* products, which would in turn impact on domestic employment and on overall economic activity.
- There is no doubt that one of the main weaknesses of the Salvadorian economy is the **large and chronic trade deficit**, brought about by a sustained increase in imports, in particular of consumer goods and inputs for *maquila* operations, and the deterioration in the terms of trade as a result of adverse movements in world prices for two key commodities, oil and coffee, a trend which looks set to continue for the immediate future.
- Also, while international surveys show the country to be comparatively open in economic terms, this has not been sufficient to attract substantial **foreign investment**, nor has it translated into a significant increase in **competition on the home market**, nor in an **improvement in competitiveness** which, on the contrary, appears in fact to have decreased in certain sectors. These factors underline the need for new strategies to be adopted in order to build on the improvements that have already been achieved.
- From a socioeconomic standpoint, the key point is that **remittances from abroad constitute a lifeline for much of the population**, in particular for the poorer strata

⁶ US\$1,400 million accorded under the auspices of the Consultative Group meeting in Madrid on 7 March 2001.

of society. Moreover, remittances could potentially form a cornerstone of more endogenous development if they were used to finance local factors of production. The challenge is how to **channel this flow of funds** (which hitherto has tended to flow back out to pay for increased consumer imports) into a source of **productive investment**. **A final point to stress is that high levels of lawlessness and delinquency could discourage foreign investment flows.**

- In terms of the policy debate, the need to adopt major changes in the political, socioeconomic and environmental spheres is confirmed both at official level – by the government’s agenda – and at the level of civil society. Nevertheless, the success of current policies will also depend on the **ability of the political parties to focus their efforts on a medium-to-long-term shared national agenda** which goes beyond short-term perspectives and aims to address the eradication of the structural causes of poverty and exclusion. At the same time it will be necessary to **expand dialogue between government and civil society** which is increasingly calling for clear political measures to reduce social inequalities (for example, by means of tax reform), revive the country’s economy and implement greater decentralisation.

3.4 Challenges going forward

It is internationally acknowledged that the El Salvador peace process has been one of the most successful in the region, given the satisfactory implementation of the accords which put an end to the conflict. This is an essential prerequisite for a new impetus to be given to poverty reduction policies. Despite considerable progress, the country is still faced with major challenges in the medium term, which could jeopardise its growth and development potential and the historic opportunity of achieving economic, political and social consolidation:

a) Key issues for modernising the state and decentralisation

- The consolidation and democratisation of public institutions, including a strengthening of the rule of law and ensuring the security of citizens;
- Weakness at municipal level as a consequence of a system which is still centralised, both politically and economically;
- Strengthen reform of the electoral and justice systems, two key areas for the consolidation of democracy;

b) Socioeconomic challenges

- Tackling a range of social inequalities by measures to promote greater equity;
- Increasing investment in and improving access to basic social services;
- Stimulating economic growth and employment and finding viable medium and long-term alternatives for the next generations: the high rate of demographic growth is putting huge pressure on land, the environment, social services and above all on the labour market;
- Strengthening the tax system;
- Encouraging investment (both external and internal);
- Reducing the vulnerability of the economy to external factors, to the level of emigrants’ remittances or the prospect of *maquila* operations relocating to other countries in response to macroeconomic changes;
- Integrating into the world economy so as to benefit from the expansion of world trade and globalisation and, with this in mind, preparing the way for fruitful participation by El Salvador in free trade agreements. In order to meet this challenge, El Salvador will have to boost its export capacity by focusing on goods with higher added value, improving productivity and emphasising features such as technology and innovation.

c) Environmental challenge and vulnerability to natural disasters

- Reconstruction and reduction in environmental vulnerability to natural disasters;
- Environmental destruction seriously threatening the country's productive potential, by destroying the basis of development.

Abroad, El Salvador's main concern is its involvement in the process of Central American integration, a process that could provide solutions to a number of social and economic problems faced by all the countries in the region.

4 INTERNATIONAL AID TO EL SALVADOR

4.1 Community cooperation with El Salvador

In 1999-2001, €55 million in aid was committed to El Salvador. **The cooperation experience** with El Salvador has been directly linked to that with the other countries of the region with whom the Commission has adopted a number of common instruments (regional cooperation agreement, programmes etc.) following the peace process and driven by the San José dialogue of 1984:

- Up to the post-conflict phase, at the beginning of the '90s, cooperation with El Salvador was directly determined by circumstances in the country with emergency interventions (food or emergency aid, assistance for displaced persons or refugees from the conflict) being followed by an extension of aid other areas such as, for example, protection of human rights, economic cooperation, demobilisation and the reintegration of former combatants. Despite the relatively large number of budget lines and "small projects", the bulk of Community aid was concentrated on broader and "traditional" cooperation programmes, in particular rural development in the poorer regions of the country.
- Starting in 1998 the "project aid" approach appropriate to the post-war phase was gradually replaced by a sectoral approach, based on a strategy and a Memorandum of Understanding (MoU) (signed in 2001) which provides for a smaller number of areas of operation agreed with the government. As part of this approach, the Commission and El Salvador entered into a "Framework Convention" which simplifies and restructures the arrangements for technical and economic cooperation by putting in place a set of clear contractual and financial rules for the implementation of aid measures, by establishing the role of national coordinator and by entrusting the Salvadorian authorities with greater responsibility in the execution phase.
- El Salvador also received Community aid at regional level and under the measures and programmes open to all Latin American countries (for example: decentralised cooperation programmes such as AI-Invest for economic cooperation, ALFA for cooperation in the field of higher education, @LIS for cooperation in information society matters etc.).
- Through its humanitarian office, ECHO, the Commission has on several occasions provided emergency aid to the victims of natural disasters, most recently to the victims of the earthquakes of January and February 2001. In addition, ECHO has since 1998 been financing projects to promote disaster-preparedness and to reduce the vulnerability of local communities to natural disasters. These measures were followed up with reconstruction programmes. It should be noted that the Commission did not respond to this emergency situation by restructuring existing programmes but by releasing other funds additional to the "normal" annual programming, particularly

in the framework of the Regional Programme for the Reconstruction of Central America (PRRAC)⁷ (see Annex 11). This EUR250 million programme is focused on grassroots activities. It is not so much a regional programme, since the operations are financed by country, as a programme for financing national operations in the countries of the region.

A **systematic evaluation** of Community aid to El Salvador has yet to be carried out. For an analysis of past cooperation, reference must be made to **alternative sources** (programme activity reports, evaluations at regional level of different sectors - health, support for microenterprise and credit funds, the MoU signed in 2001). In addition, the evaluation reports on aid to other countries of the region provide a number of recommendations which may also be applicable to El Salvador:

- Shift from a project-based approach to a programme-based approach and include a long-term vision.
- Adopt a **long-term vision** of cooperation, by integrating cooperation measures with national policies.
- Prepare **framework documents for the different sectors**
- Review the **common guidelines for the various budget lines** available in order to ensure greater coherence and impact as between the various measures and **to avoid the dispersion of aid.**
- Mainstream **gender and social participation** as factors of development and viability.
- Support **institutional capacity-building** by generating a sense of ownership of the new resources and methods contributed by the programmes.
- Move towards decentralisation by gradually involving the Delegations in the management of the project cycle and providing them with resources.
- **Support regional measures**, since they lend momentum to the process of regional integration and since the EU is the donor with the greatest experience of this type of programme.
- **Coordination with the EU Member States** and with the other donors is essential to maximise the benefits of cooperation.
- In addition, as provided for in the MoU, the **Salvadorian government** ought to (i) play a more active role in the projects by making a **substantial contribution** by way of national matching funds for the projects; (ii) confirm its commitment to creating an effective **coordination mechanism** between the programmes funded by different donors and in different sectors and geographical areas.
- The Commission should also initiate **closer political dialogue** with the government of El Salvador in the framework of the EU. This should lead to a greater correlation between the scale of the cooperation resources provided by the Commission and its involvement in the **consultation of policies to enhance the effectiveness and impact of sectoral measures.**

4.2 Programmes of EU Member States and other donors

4.2.1 Principal Member State donors of bilateral aid

El Salvador receives aid from virtually all the countries of the EU. According to the OECD, in the period 1995-99, **EU Member States** and the Commission provided a total of US\$486 million, equal to **almost 40% of total aid**, thus replacing the US as the main ODA donor to the country, especially from 1998 on. In volume terms, the main

⁷ €28.5 million in post-Mitch PRRAC aid, principally for water supply and sanitation, education and protection of the environment. The post-earthquake financial contribution was €50 million, including emergency aid and reconstruction programmes.

contributors were **Germany** (11.2% of total Official Development Aid - ODA - during 1995-99), **Spain** (4.9%), the **Netherlands** (2.8%) and **Sweden** (2.1%). As regards future areas of cooperation, Member State aid will be concentrated primarily on **decentralisation and local development, environmental protection, economic development** and employment, **human resources** including vocational training, **support for basic social services** (housing, drinking water, health), and support for **democratisation and modernisation** of the state (see Annex 8).

4.2.2 Other donors

According to the OECD, total bilateral and multilateral ODA to El Salvador in the period 1995-1999 came to almost USD 1 360 million (equivalent to 1.5-2% of GDP) with a **gradual decline** (from an average of USD 320 million/year in '95 to USD 210 million/year in 1999) which is in part a reflection of the success achieved following the 1992 Peace Accords. **It is believed that this trend will be reversed in part** in the years ahead, as a result of the aid being provided by the international community in the wake of the earthquakes of 2001.

According to OECD figures again, the leading bilateral donor to El Salvador, in the period 1995-99, was the US (28.3%), followed by Japan (20.6%). The Commission is the biggest multilateral donor, accounting for 7.8% of the overall total for the period 1995-99, followed by the IDB (7.7%) and the World Food Programme (WFP) with 1.5%. In terms of areas of cooperation, in 1999 the bulk of aid to El Salvador was concentrated on "housing and social infrastructure" (27%), agriculture, fisheries and forestry (13.4%), and to a lesser extent, on other key sectors such as, for example, water management (10.3%), education (7.5%), health (6.2%), and the environment (6.3%). Interestingly, assistance for the services sector (financial sector, energy, transport etc.) and trade made up just 3.6% of the total.

The main **current and future areas of intervention** of the principal donors and lenders include the following sectors:

- **USAID:** the 1997-2002 strategy includes the following areas: support for consolidation of the rule of law, economic development, health, education, environment, local development;
- **Japan:** aid for reconstruction and integrated development of rural areas
- **World Bank:** emergency and basic health care facilities, judicial reform, rural community development, environmental services and land administration. WB also provides for possible support for education, local development, urban poverty reduction and to help youth at risk. World Bank loans and technical assistance will be complemented by support from the IFC, aimed at helping Salvadoran industry gain access to finance to improve its competitiveness.
- **InterAmerican Development Bank – IDB:** modernisation of the state and governance, support for economic revitalisation; poverty reduction and enhancement of human capital; provision of access to credit; non-refundable technical cooperation (SMEs, education, health, housing, gender and natural disasters); reconstruction; local development. The government is currently in the process of negotiating with the IDB for a loan package worth a total of USD 500 million for agriculture, local development and the reconstruction of the port of Cutuco.
- Other UN agencies operating in El Salvador provided a total of approximately USD 7 million in 2000. These were the PAHO, WHO, FAO, UNICEF and the WFP.

5 THE EUROPEAN COMMUNITY'S COOPERATION RESPONSE

5.1 Principles and objectives of Community cooperation

El Salvador is faced with a crucial challenge: to devise and implement a long-term development model, entailing the consolidation of democracy and good governance, offering the prospect of more inclusive, equitable and sustainable socioeconomic growth and looking to greater regional and international integration. The preceding sections show that the current agenda being pursued by the El Salvador authorities fits well with the objectives of Community cooperation and with the Commission's experience. That being so and in the light of the analysis of the current situation in El Salvador and the strategies of other donors, the areas on which Community cooperation should focus are as follows:

- Support for democratisation and modernisation of the state and greater involvement of civil society;
- Support for integrated and sustainable local development;
- Support for equitable economic and employment growth.

To underpin these efforts, the Commission must, as explained in point 4.1, step up political dialogue and consultation with the government on the formulation of government policy so as to ensure their viability. This entails arguing for social, redistributive policies, in particular stressing the importance of more provision for social spending in the budget, the need for "pro-poor growth" and a strengthening of the tax system (collection of taxes and tax base). This dialogue with the EU should be coordinated with the other leading donors wherever possible.

5.2 Priority areas

5.2.1 *Democratisation and modernisation of the state, security of the citizens, greater involvement of civil society*

The objective of this cooperation priority area is to address the challenges identified in section 3.4 (*Challenges pertaining to the modernisation of the state and decentralisation*), in particular by supporting the process of decentralisation currently underway and by contributing to the monitoring and improvement of public security, with budget resources to be concentrated on the former. Specifically, what this entails is taking action centrally with a view to **strengthening the legal and administrative framework of decentralisation and devising a series of pilot schemes for capacity building and the improvement of municipal services** (water, education, health, environmental management etc.) to be implemented later (as part of the "local development" priority area). Special emphasis is to be placed on the exchange of experience between municipalities and participation by local operators and by NGOs with a view to enhancing the supply and quality of services available. In contrast, it is felt that it will not be possible to design and implement the scheme to support the electoral system, as provided for in the Memorandum (MoU), in time for the elections due to be held in 2003 and this therefore cannot be retained as part of the current strategy. Though the Commission could step up the dialogue on electoral reform. Action in the area of law and order will involve **prevention of juvenile delinquency** and the rehabilitation of young offenders.

5.2.2 *Support for integrated and sustainable local development*

The socioeconomic marginalisation and geographical imbalances found in El Salvador constitute one of the major obstacles to the sustainability of development. These imbalances increase poverty levels, thereby leading to a process of exclusion and cultural rootlessness at local level and a growing concentration of people, economic

activity and political decision-making. Consequently, the objective of this priority area is to **promote, by means of an approach based on geographical management, investment in social and productive infrastructure, and integrated, balanced, environmentally-friendly development** which helps to overcome the current conditions of poverty at local level. Moreover, by focusing cooperation in this area, the Commission will be able to draw on its accumulated experience both in terms of sectors (education, health, integrated rural development, environment etc.), geographical areas and familiarity with the local partners (government, NGOs, civil society etc.). This priority area also covers activities already in progress in these domains (PRRAC, Honduras-El Salvador binational programme, etc.). The new activities will have to provide for coordination and complementarity with these other initiatives.

5.2.3 Equitable economic growth and employment

Economic growth and job creation are essential factors in the establishment of a development and poverty reduction model that is genuinely participatory and inclusive throughout the whole of El Salvador. The productive sector is the only sector that can provide a growing population with the jobs and the products and services it needs, create an alternative to the limits of the agricultural sector and bring about a diversification of traditional and non-traditional exports. Consequently, the objective of this priority area is twofold:

To **foster the expansion, competitiveness and productivity of indigenous private sector businesses** particularly small and micro enterprises at local level.

To **enhance El Salvador's position on international markets** (EU and Central America) and work towards its **effective participation in the multilateral trade system** and in the global economy, having regard to the development agenda drawn up at the WTO conference in Doha (2001). In addition, economic relations between the private sectors of both sides must be intensified and promoted.

5.3 Non-focal sectors

a) Environment and reducing vulnerability to risk

On the basis of the results of Community programmes on the environment currently underway and in line with the objectives laid down by the MoU, the above measures could be supplemented by action in the following areas:

- Collaborate on devising and implementing an integrated system of management of the water catchment areas, with the mechanism in question having the function of preserving biodiversity, the water system, the soil or the forests;
- Promote the supply of drinking water, basic sanitation and the collection, processing and treatment of solid waste for poor communities, both rural and urban.

This proposed measure should be integrated into the “local development” approach called for by the other components of the current strategy (geographical coverage and development plan) and the government's basic policy which at present is concentrated on territorial organisation and development on the basis of micro basins and watersheds.

b) Regional integration of Central America

From an economic and political standpoint, this objective is key to the future of El Salvador and future action by the Commission must take account of and facilitate regional integration. In particular, one of the future guidelines for cooperation with this country and the other countries of Central America is to incorporate integration as a major crosscutting theme. Three areas of intervention will be given priority:

- Support for economic integration and the implementation of common policies;
- Consolidation of the institutional structure of Central America and its workings;
- Enhancing the role of civil society in the integration process.

These measures must be coherent with the regional strategy document for Central America and will reflect Salvadorian priorities in the context of the regional initiatives.

5.4 Operational Criteria

A series of operational criteria will guide the work of the Commission in all the phases of identification, formulation and implementation of programmes:

- **Emphasis in the good quality of identification and design of programmes;** with better co-ordination with the Member States and other donors (including, if possible, joint missions, joint programmes, interaction with other donors during sector-specific assessment and formulation of new programmes), with greater participation of the Delegation thanks to the process of devolvement applicable to the Delegation from 2002;
- Emphasis in **sectoral programmes** rather than in individual projects and elaboration of strategic focus where possible on the basis of sectoral studies showing the added value of EC assistance. In parallel, as a general condition, these programmes must be supported by appropriate national sectoral policies in order to maximise the number of operations supported;
- Where necessary and where the amount of EC financing justifies it, look for **cofinancing**, possibly through budgetary support and/or joint financing mechanisms with other donors.

5.5 Other budget lines and other resources

This section deals with a range of measures which are complementary to the strategic objectives of this document and which also relate to measures taken in the framework of other budget lines:

- Measures relating to conservation and management of the environment;
- Measures relating to HIV/AIDS;
- Conflict-prevention measures;
- Measures relating to antipersonnel mines;
- Measures adopted under the R&D Framework Programme;
- Food aid and food security;
- Justice and home affairs;
- Budget line for “drugs”;
- ECHO, emergency humanitarian aid, prevention of and preparation for natural disasters;
- Human rights and democratisation;
- Decentralised cooperation.

These budget lines respond to specific objectives with different programming modalities. In setting priorities for each of them, account will have to be taken of the strategic guidelines established by this document with a view to reinforcing them. In the case of El Salvador, it will also be possible to enhance coherence between measures by means of a list of “geographical priorities” (areas or regions) defined in the framework of the “decentralisation and integrated development at local level” priority area. In addition, the content of the various programmes/projects could be coordinated as follows: possible joint programming mission and ex ante coordination between the Commission services (at their offices and on the ground) at the various stages.

5.6 Consistency with EU policies (Policy Mix)

The most important EC policies which have an impact in our relations with El Salvador, including relations at regional level, are: trade and development; common agriculture policy (CAP); health and plant health policy - consumer protection; internal market; competition policy; research and development policy; environmental policy; conflict prevention; justice and home affairs; information society. In general terms, it can be concluded that the present strategy is coherent with these EC policies. However, it is important to underline some questions relative to certain implementation aspects:

- GSP Drugs component which due to its limited duration prevents long term investment in the areas concerned;
- Health and plant health controls;
- Remittance of emigrated population is essential to the balance of the macroeconomic framework. The immigration EU policy could be a problem if the EU becomes a destination for emigrants in the future.

A description of the main conclusions on this subject, and of other Community policies, is to be found in Annex 9.

5.7 Complementarity with Member States and with other donors and international agencies

Coordination/complementarity between donors will be a key factor in future cooperation with El Salvador for a number of reasons. These reasons are the convergence of strategies (particularly in the “**local development**” priority area, but also in **support for the private sector**), the high degree of international involvement in certain cooperation sectors (particularly the post-Mitch and post-earthquake reconstruction programmes) and the country’s small size. As a result, **closer coordination** will be necessary between the EU countries (e.g. **GTZ, AECI**), the international donors (**especially IDB and UNDP**) and the Commission, particularly through greater involvement and contact at local level beginning with the identification phase. In this regard, the Terms of Reference of the identification missions for Community programmes should include on-site coordination with the other donors. In addition, provision should be made for a greater **Commission involvement in the existing coordination mechanisms in El Salvador**, such as the network of donors for local development - RECODEL – whose participant organisations include GTZ, USAID, IDB and UNDP - or other similar networks. Complementary to this, the Commission and El Salvador should emphasise the role of the “national cooperation coordinator” established by the Framework Convention agreed by the two sides. The opening of a Commission Technical Office in San Salvador will enable closer monitoring of activities and closer coordination with other donors.

6 MULTIANNUAL INDICATIVE PROGRAMME

This strategy will be subject to an annual adjustment process which will concern the sectoral indicators and perhaps also the indicative programme and the budget envelopes. This process will take place on the basis of consultation with the Member States and with the Salvadorian authorities and civil society, in accordance with the established procedures.

6.1 Financial instruments

The main instruments of Community finance for the implementation of this strategy are the following budget lines:

- Financial and technical cooperation and economic cooperation for which the MoU envisages an overall envelope of €60 million for the period 2000-2006;
- Other sector-specific budget lines such as, for example, decentralised cooperation, environmental protection, food aid etc.

The implementation of programmes already underway (PRRAC, binational Honduras-El Salvador programme etc.) will also contribute to the realisation of the cooperation objectives set out in this document.

6.2 Cooperation priorities

6.2.1 Consolidation and modernisation of the state, good governance

Objective: To reinforce the process of decentralisation and local autonomy with a view to a better return on investment in public services and greater involvement on the part of citizens and civil society.

Action at central level

- Guiding and **strengthening the national legislative and administrative framework** in relation to local autonomy (e.g. specification of local powers and services, procedures, etc.) and the **planning of sectoral policies** which are linked to decentralisation and local development (health, education, environment etc.) This includes support for designing/improving mechanisms for allocating financial resources and helping local government find sources of revenue.
- **Enhancing the “tools”** used for planning and implementing public policies **relating to decentralisation** (integration of the various strategic and planning instruments (e.g. Plan de Nación, land development plan, local development strategy of the FISDL etc.); strengthening of the national statistical system, particularly as regards human and territorial development; technical assistance with census-taking).

Action at local level

- Devising **pilot programmes to strengthen the capacity of local/regional institutions** and of the institutions/entities that will be responsible for delivering public services at local level (with the emphasis on the following services: education, health, water and waste management, protection of disadvantaged groups, security of citizens).
- **Devising mechanisms for participation** by civil society at district and local level.
- Facilitating **exchange of experience** and the creation of information networks between the municipalities.

Greater involvement of women in local decision-making will also be a specific goal. The results of the actions proposed under this cooperation heading will be backed up by the investment and training measures to be undertaken at local level under the local development heading.

Conditions and other provisions

The goals of this programme can be achieved only if the Salvadorian government pursues a **policy of decentralisation** on the basis of current legislation. This means improving co-ordination between central and regional/local government level, strengthening the institutions responsible for decentralisation and supporting devolution to local level. The Community should emphasise the need to establish a partnership with civil society and encourage its participation both in operations and in drawing up the policy framework. Local government bodies will also need to show commitment in assuming responsibilities for the provision of quality local services and to this goal work

with local representatives of civil society and private operators. Another key factor will be the allocation of sufficient budget resources.

Indicators: The most appropriate indicators will be identified during the preparation of the programmes in this area. Examples of possible indicators include: percentage of the public budget allocated to the municipalities; institutionalised mechanisms for open citizen participation in joint decision-making; etc.

Objective 2: To contribute to tackling the high rate of crime and public insecurity, a legacy of the armed conflict.

Areas of action

The overall objective of this action is to reduce juvenile delinquency and to enhance the security of citizens in the urban areas where most of the population live, by cutting the number of juvenile delinquents by 50%. The specific objective is to increase both the quantity and quality of educational, training, employment, community and institutional facilities with a view to the personal development and social integration of 50,000 young people at risk, between the ages of 10 and 25, in the San Salvador metropolitan area. A programme to prevent and eradicate juvenile delinquency was approved by the ALA committee in December 2001, together with a set of indicators and conditions for its implementation.

6.2.2 Integrated and sustainable local development

Objective: To promote integrated and sustainable social and economic development throughout the country, particularly in the poorest areas, by improving the availability of social services and boosting economic activity at local level.

Actions: The following action is planned under this heading:

- Devising and supporting **programmes of investment in social facilities and services and in economic infrastructure** with an effective involvement of those responsible for the sectors concerned and the local and district authorities:
 - social sector (primarily water and waste management, health and education);
 - local economic infrastructure (e.g. public markets, bus terminals, and slaughterhouses); services to the local economy so as to promote the restructuring and development of the agricultural sector and small and micro enterprises.
- Devising and supporting **programmes of institutional capacity building aimed at municipalities and local entities**, emphasising **local capacities linked to sound environmental management and the reduction of vulnerability to natural disasters**.
- Devising and **supporting the management of integrated and sustainable local development plans** on the basis of effective participation by the various parties concerned. An important component will be educating communities about the importance of the rational use and the conservation of natural resources.

The actions will be concentrated in well-defined geographical areas of sufficient size (no smaller than an administrative district) to ensure a minimum level of effectiveness and evaluation of the impact of the action at local level. These areas should be chosen having regard to government strategy and the possibility for the Commission to capitalise on previous experience. At the same time, appropriate procedures will have to be put in place for the channelling, management and technical support of Community financial resources via a national instrument or fund such as, for example, the Fund for Social Investment in Local Development (FISDL).

Given the nature of the intervention in this domain, there could be direct collaboration with other ministries or agencies operating in particular sectors (for example: health, education, environment, the economy), or with other civil society entities (private business, NGOs), during both the planning and operational phases. The various development and investment plans drawn up at local level will have to be coherent with the provisions and with the structure of sectoral policies laid down centrally by the state, particularly in relation to **sustainable development, sound environmental management and reducing vulnerability to natural disasters**.

In addition, complementarity will have to be established between projects undertaken under this strategy and programmes currently underway, in particular the reconstruction aid provided for under the post-Mitch Regional Programme for the Reconstruction of Central America (health, education, environmental protection) and the post-earthquake initiatives, and other major local development programmes currently in the process of implementation (e.g. San Vicente Productivo, El Salvador-Honduras binational programme etc.). In this regard, it would be appropriate to focus future action by linking rehabilitation with sustainable development and systematically integrating into the programmes measures to reduce vulnerability and prevent natural disasters.

Indicators

The measures to enhance local capacity and investment will be implemented in accordance with conditions to be negotiated during the preparation of the programmes in this area but which will, in any event, be directly linked to poverty reduction, particularly the reduction of extreme poverty, the percentage of the public budget earmarked for local investment, the reduction of the average distance to access basic services. Citizens are directly involved in local government policy implementation, including budget hearings and other financial decisions; the existence of effective local technical/planning offices for the execution of plans and proposals generated through an open, participatory process.

Conditions and other provisions: Progress in the decentralisation process (state, civil society); allocation of sufficient budget resources.

6.2.3 Equitable and sustainable growth in the economy and employment

Objective 1: To promote the conditions necessary for a sustainable increase in the competitiveness and productivity of Salvadorian private enterprise, particularly small and micro businesses at local level.

The following forms of action are to be studied:

- Enhancing marketing, exports, quality and the management of businesses and micro businesses by encouraging higher added value products, improving productivity and emphasising factors such as technology and innovation.
- Increasing the availability of financial and non-financial services to business (training, technical assistance).
- Strengthening the institutions and the support networks for small and micro enterprises (for example, mutual assistance organisations, trade associations, technical centres, groups of enterprises etc.) so as to promote international cooperation and partnership among SMEs and to provide better access to information, financial and technological resources, and to new markets.

Another possibility in this context would be the creation of a source of finance to complement the Community resources by devising and implementing mechanisms whereby emigrants' remittances could be channelled into productive activities for the

benefit of small and micro businesses. Among the criteria to be taken into account would be the need to promote access to services for the most disadvantaged businesses – and those headed up by women – exchange of experience, dissemination of best practice and technical expertise.

Objective 2: To improve El Salvador's position on international markets (EU and Central America) by intensifying and promoting the private sector's economic relations.

Specifically, the EC will support El Salvador in its efforts to build its institutional, judicial and regulatory capacities in trade related fields, notably through technical assistance to build capacity in the areas of trade facilitation (simplification, harmonisation and automation of import, export and transit procedures), the improvement of the domestic competition policy framework, assistance in the analysis of tariff and non tariff priorities and needs, and support for the further development of El Salvador's foreign direct investment regime (increasing its capacity to attract and benefit from FDI, human and institutional development). The EC will also support El Salvador in its efforts to increase its capacity to participate in the multilateral negotiations, in the perspective of the Development Agenda launched at WTO Ministerial Conference in Doha (2001).

- Indicators: GDP, rate of growth and distribution of employment, volume and composition of exports of non-traditional products on the local, national or international markets. Business start-up and cessation rates by sector and by region.
- Quality of products on offer. Volume of remittances invested in local programmes/activities.
- Variation in the European Union's position in terms of exports to and investment in El Salvador.

The most appropriate indicators will be identified after more detailed consideration. Current government policy: stable macroeconomic policy, support for the policy of promoting small and medium-sized enterprises

6.3 Crosscutting themes

Cooperation between the two sides should be based on the objective of broad participation by civil society, the principles of social equality – including as regards gender, respect for minorities and different cultures, sustainable development from an environmental standpoint. Community cooperation will also support regional integration in Central America.

Equal opportunities: all action under this strategy will take into consideration the fact that combating poverty requires an equitable level of participation by men and women and greater access by indigenous communities to break the vicious cycle of exclusion and marginalisation.

Protection and management of the environment and reducing vulnerability to natural disaster: prevention of and preparation for the eventuality of natural disasters, in both the national and bilateral contexts, must be a priority for Community cooperation. Likewise, criteria for impact evaluation and the sustainability of environmental management will have to be considered in respect of all actions proposed. The actions must be coherent with the Commission's environmental policy priorities and with the regional strategy paper for Central America and with future measures aimed at reducing vulnerability to natural disaster in all the countries of Latin America.

Regional integration: This is the main priority of the Commission's strategy for the Central American region. It must be kept in mind at all stages of strategy

implementation, and all operations and activities should be consistent with the regional strategy paper.

Other: Decentralisation, Participation of civil society, promotion of new information and communication technologies

6.4 Programme of work

On the basis of this strategy, the programme of work will be as follows:

Priority areas	2002	2003	2004	2005	2006	Total
1. Prevention and eradication of juvenile delinquency	9.2					€9.2 m
2. Consolidation and modernisation of the state, support for decentralisation				33		€33 m
3. Programme of integrated local development						
4. Support for the economy and employment - Identification - Commitment			10			€10 m
Non-focal sectors						
5. Environment and combating poverty	4.4				4	€8.4 m
Regional integration						

- In principle, activities proposed under the headings of decentralisation and local development will be combined in a single project.
- The final selection of projects and funding amounts will be based on the results of the detailed identification and preparation work organised by the Commission. The indicative work programme is conditional on the availability of resources from the Commission's annual budget.
- This programming does not include the financial resources provided for in the framework of the PRRAC for Guatemala which will also contribute to the realisation of the objectives set forth in this document.

7 ANNEXES

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