El Salvador's Quest for Equitable Growth and the 20th Anniversary of the Peace Accords

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This is a crucial time for El Salvador. This year, the country commemorates the 20th anniversary of the signing of the Peace Accords, which ended a painful 12-year civil war that took more than 75,000 lives and changed the country forever. Twenty years later, the arduous process of democratic consolidation and the implementation of critical development initiatives continues.

The Peace Accords of 1992 have been cited internationally as a model for peace and conflict resolution through political negotiation. By confronting the atrocities and human rights violations of the war through the Truth Commission established by the Accords, El Salvador then was able to integrate those involved in the armed conflict into the democratic process, consolidate the electoral system and begin to strengthen its democratic institutions to promote respect for the rule of law.

Undoubtedly, El Salvador must still address critical concerns in the aftermath of the conflict, such as crime, public insecurity and socioeconomic problems. However, it is important to acknowledge the progress that has already been achieved and to recognize the efforts underway to build a brighter future.

El Salvador is working to strengthen a new inclusive development model, one without ideological constraints, to address long-standing social inequalities. This model is designed to be attractive to domestic and foreign investors, and reliable enough to foster the sustained growth rates that have been unattainable in the last 20 years.

The United States has an unparalleled opportunity to contribute to this transformational process in El Salvador. This is the way we understand it, and it is the way we believe President Barack Obama understands it. For example, El Salvador was included by President Obama during his official visit to Latin America in March 2011. This visit also included stops in the pragmatic giant Brazil and in Chile, which is known for its successful economic model.

In the area of development, El Salvador was recently declared eligible by the Millennium Challenge Corporation (MCC) for a second cooperation program or compact.[*] Moreover, El Salvador was the only Latin American country selected as one of the four participants—the other three are the Philippines, Ghana and Tanzania—in the global "Partnership for Growth" (PFG), an initiative launched by the Obama administration in

[*] Editor's Note: *On September 20, 2007, the first MCC compact with El Salvador entered into force. The five-year, $461 million compact focuses on agricultural production, education, public services, rural business development and transportation infrastructure, particularly in the northern zone.*

2011 that seeks to promote economic expansion under a new cooperation model based on shared responsibility.

Under the Partnership for Growth, El Salvador and the United States established a joint team of economists and policy experts from both countries who conducted a technical analysis to identify the binding constraints on economic growth in El Salvador. Although several factors act as barriers, the joint team identified crime and insecurity and low productivity in the tradable goods sector as obstacles to investment and economic growth at the present time.

To define the areas of focus for the necessary policy interventions, the two governments signed a Joint Country Action Plan on November 3, 2011, which calls on both countries to implement a broad set of actions to address these constraints. Over the next five years, the United States and El Salvador intend to focus on preventing crime and violence, strengthening institutions and enhancing productivity in the tradable goods and services sector, as priorities aimed at unleashing economic growth in El Salvador. In addition, both countries will invite the international community and other actors to help mitigate the effects of these constraints.

The security component of the Joint Action Plan sets goals in 14 areas, including the interdiction and dismantling of criminal organizations, the control of illegal arms trafficking and money laundering and efforts to combat drug consumption, among others.

The Partnership for Growth also aims to strengthen the institutional capacity of El Salvador's judicial system as a way to increase the country's effectiveness in dealing with organized crime that threatens governability within the region.

While addressing the issues that hamper productivity, the PFG also has recognized the importance of developing commitments, goals, and specific actions to foster an environment that encourages private investment, promotes competitiveness and boosts exports. The constraints analysis shows that the issues limiting growth relate to factors of production, such as physical capital (infrastructure), human capital, and financial capital, as well as restrictions in the institutional framework.

The PFG addresses constraints to productivity in six core areas, namely: i) by improving the business climate, as measured by the Doing Business indicators; ii) by reducing operational costs due to infrastructure limitations and speeding up priorities such as the concession of *La Union Port* in the Pacific Ocean; iii) by improving the quality of the education system to produce a technologically skilled labor force; iv) by making El Salvador a more attractive place for foreign direct investment; v) by promoting innovation and quality production with a focus on the international market; and vi) by promoting trust between the Government of El Salvador and the private sector.

The private sector plays an important role in galvanizing economic activity, but by the same token, its social responsibility is fundamental in building a more equitable country. The PFG seeks to stimulate entrepreneurship and prosperity while also targeting solidarity. At present, El Salvador does not collect enough revenue to make the necessary investments, and it is rated poorly by international standards in terms of its ability to collect taxes. Consequently, El Salvador has set a goal to raise (net) tax revenues to 16 percent of GDP by 2015, and to use these collected public resources efficiently and transparently.

The PFG truly aspires to become an unprecedented model for cooperation, based on shared analysis and fueled by a joint commitment to achieve results. In the words of President Mauricio Funes, "The Partnership for Growth is a strategy designed along with the Government of the United States and other cooperation agencies, with the purpose of removing all obstacles which are hindering economic growth in El Salvador, so that in turn, the country can experience growth at levels [higher than we have seen to date], and more importantly that said growth can be sustainable."

The ultimate goal of the Peace Accords of 1992 looked beyond the end of armed conflict to promote reconciliation. Intrinsically, the Accords laid the foundation to transform the development model of El Salvador into something more equitable.

Despite tremendous struggles, El Salvador has achieved greater progress in its democratic consolidation in the last 20 years than in the previous 190 years as a republic. However, the economic commitments contained in the Peace Accords have fallen short. For El Salvador, developing a more just and inclusive economic environment is an inescapable task.

El Salvador aspires to become a strong, thriving and inclusive economy. The Administration and the Congress of the United States, as well as the international community, once again have the opportunity to become partners of El Salvador in its continued quest for equitable growth.