

# PARTNERSHIP FOR GROWTH

EL SALVADOR - UNITED STATES  
Joint Country Action Plan  
2011-2015

November, 2011



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## ACRONYMS

AGO	Attorney General Office
CA	Constraints Analysis
CAFTA	Central America Free Trade Agreement
CES	Economic and Social Council
CEPA	Port Authority Executive Commission
CSJ	Supreme Court of Justice
DF4D	Domestic Finance for Development
DGSV	Plant Health Department
FDI	Foreign Direct Investment
GOES	Government of El Salvador
ICT	Information and Communications Technology
IFC	International Finance Corporation
INSAFORP	Salvadoran Institute for Professional Training
JCAP	Joint Country Action Plan
M & E	Monitoring and Evaluation
MRER	Regulatory Framework for Renewable Energy
NGO	Non-governmental organization
PDDH	Human Rights Ombudsman Office
PFG	Partnership for Growth
PGR	Public Defender
PNC	National Civilian Police
PQD	Five-Year Development Plan
PROESA	Salvadoran Investment Promotion Agency
RIAC	Inter-American Competitiveness Council
SIAI	Integrated Investor Attention System
SMEs	Small and Medium Enterprises
UNDP	United Nations Development Programme
USG	United States Government

## INTRODUCTION

The Partnership for Growth effort aims to rapidly expand broad-based economic growth in El Salvador under an overarching commitment to democracy, sustainable development, and human rights. In order to achieve these goals, the Governments of El Salvador and the United States acknowledge the importance of a well-functioning market economy and the critical role of the private sector in leading economic development while the government serves an essential purpose by establishing an institutional environment conducive to economic growth, addressing social gaps, and investing in the nation's people. The two governments have developed this Joint Country Action Plan (JCAP), which they intend to implement in accordance with their respective laws and regulations.

### Context

For the past fifty years, El Salvador's economic growth rate and investment relative to GDP has remained below the average for countries in Latin America and the Caribbean and Asia. More recently, it has experienced mixed economic performance. From 2000 to 2010, the Salvadoran economy averaged just 2 percent annual economic growth, with GDP receding by 3.1 percent in 2009 due to the financial crisis and recovering only to 1.4 percent growth in 2010. These rates of growth are decidedly below the Latin American average. In addition, in 2010 El Salvador was the only country in Central America where the amount of foreign direct investment declined in comparison to previous years. El Salvador is expecting 1.4 percent economic growth in 2011, which is lower than previously anticipated. The Government of El Salvador (GOES) is determined to reverse these trends by laying the groundwork for a development model built on a new cycle of investment and economic growth. To this end, it is promoting programs and initiatives for productive transformation based on innovation, entrepreneurial initiative, and the diverse use of territory in accordance with their characteristics.

The Partnership for Growth (PFG) is a relationship that strengthens this GOES-driven process with the goal of steering it towards an historical era of investment and broad-based economic growth. In this way, the PFG is a critical contribution to strengthening the process and creating a valuable opportunity for Salvadoran development.

Since the current administration took office in June 2009, three natural disasters have occurred (Ida, Agatha, and 12E) resulting in losses of human life and infrastructure. The investments made under this effort need to be made with full acknowledgement of El Salvador's vulnerability to natural disasters and the effects of global climate change. In El Salvador, nearly 88.7 percent of the country's territory is susceptible to natural disasters and approximately 95.4 percent of El Salvador's population is at some risk.<sup>1</sup> Disasters affect stocks of physical and human capital and ultimately reduce per capita GDP growth rates and the domestic savings rate. If the domestic savings stock is low, then recovery from a natural disaster depends on access to foreign funds.

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<sup>1</sup> See USG-GOES (Partnership for Growth: El Salvador Constraints Analysis, 2011) (page 201) at [http://photos.state.gov/libraries/elsavador/92891/PFG/ES%20Constraints\\_Analysis.pdf](http://photos.state.gov/libraries/elsavador/92891/PFG/ES%20Constraints_Analysis.pdf)  
[http://photos.state.gov/libraries/elsavador/92891/PFG/ES%20Constraints\\_Analysis\\_Espa\\_ol.pdf](http://photos.state.gov/libraries/elsavador/92891/PFG/ES%20Constraints_Analysis_Espa_ol.pdf)

In order to determine where to focus necessary policy interventions, the two Governments established a joint team of economists to conduct an analysis that would identify binding constraints on economic growth in El Salvador. The constraints analysis aimed to identify the root causes that dissuade individuals and corporations from making investments that would significantly boost revenues. Although myriad factors act as barriers to investment, the analysis of constraints to economic growth<sup>2</sup> identifies the specific issues that are curbing investment and economic growth the most at the present time. Through this exercise, the team uncovered the main limitations on investment and explained the reasons why other constraints could not be established as the most binding obstacles to investment in El Salvador.<sup>3</sup> At the end of the study, the joint team found two restrictions to growth - crime and insecurity and low productivity in the tradables sector.

### **Crime and Insecurity**

The “shadow price” (the effect on the GDP if the constraint were removed) of crime is between 4.8 percent and 10.8 percent of GDP (depending on whether health costs are included). Both of these figures are higher than the Central American average and more than double the figure for Costa Rica, the only country in Central America not classified as having an “epidemic” level of crime. Moreover, just under half of business surveyed by the World Bank Enterprise Survey report that crime is an obstacle to their operations—at least 15 percentage points more than the Latin American and lower-middle-income country average. In the Global Competitiveness Report, El Salvador ranks last out of 142 countries under the Organized Crime indicator, and 132 out of 142 countries in Business Costs of Crime and Violence.

### **Low Productivity in the Tradables Sector**

The term “tradables” refers to products that are or can be traded internationally. Their prices are set on international markets, whereas the prices for non-tradables are set domestically. This means that the price of tradables facing Salvadoran firms is conditioned by factors largely exogenous to production. Therefore, the Salvadoran tradables sector is the world’s tradable sector, and competition is global competition. With prices set at or very near world prices, Salvadoran firms must have a high level of productivity in order to enter the tradables sector.

The share of output of tradables in GDP has declined since 1990, likely as a consequence of low productivity of Salvadoran firms operating in this sector. El Salvador’s share of tradables as a percent of the GDP has declined from 45 to 40 percent over this period and has consistently been 5-10 percentage points below the average for Middle Income Countries, and 10-15 percentage points below the Lower-Income Country average. El Salvador may be missing 8 percent GDP, compared to other CAFTA countries, due to the productivity constraint in tradables.

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<sup>2</sup> See Haussmann, Rodrik and Velasco (Growth Diagnostics, 2004)

<sup>3</sup> See USG-GOES (Partnership for Growth: El Salvador Constraints Analysis, 2011)

## **Other Donors in El Salvador and How They Might Contribute**

The Paris Declaration and the Accra Agenda for Action commit donors and partner countries to, among other objectives, work closely to increase aid effectiveness and advance the world's poor towards prosperity. The PFG has already been a strong example of partner country ownership and cooperation as the Government of El Salvador has been a leader in defining this Joint Country Action Plan. The two Governments have made efforts to discuss their plans with other donors operating in El Salvador, and they intend to continue to do so as the effort moves from planning to implementation. Even before the PFG, the Government of El Salvador convened donors and worked with them to better align their programs in a concrete effort to meet the principles of the Paris Declaration. It is the hope that a spirit of cooperation and a desire to be as effective as possible in moving El Salvador forward will be present in all of our coordination efforts. Through careful coordination and collaboration we can ensure that our efforts complement each other and amplify our collective impact. Both the U.S. Government and the Government of El Salvador look forward to close engagement and collaboration with the donor community in El Salvador as this effort moves forward.

The remainder of this document describes how the GOES and USG, working together, intend to reduce the effects of the two binding constraints through the Partnership for Growth.

## **Constraint #1: CRIME AND INSECURITY**

### **Background**

El Salvador has one of the highest levels of non-political violence in the world and one of the highest homicide rates within all of the Americas, with roughly 58 homicides per 100,000 inhabitants. A 2007 Global Study on Homicide, published by the United Nations Office of Drugs and Crime (UNODC), notes that the legacy of armed conflicts and violence, the easy availability of arms, chaotic urbanization, high income inequality, a high proportion of youth, local gang structures, organized crime, and drug trafficking all contribute to high levels of violent crime in the sub-region. The 2011 UNODC Global Study on Homicide suggests there is a clear link between homicides and development. According to the study, countries with high levels of income disparity experience homicide rates almost four times higher than countries with more equitable income distribution. However, the same report identifies drug trafficking as the major cause of the increase in homicide rates in recent years. The geographic position of the sub-region, between the lucrative drug market of the United States and the main cocaine production areas in South America, has made El Salvador an increasingly important drug trafficking route. In the Americas, homicides are three and a half times more likely to be committed with a firearm compared to Europe (74% vs. 21%); this is another sign of the influence of organized crime in the sub-region.

The costs of this violence are significant. The World Bank estimates that crime and insecurity in El Salvador costs the country roughly 10.8 percent of its annual GDP, more than the Central America regional average of 7.7 percent, making it one of the highest costs in the world. UNDP reports that the amount that individuals and private companies pay for private security and surveillance exceeded the GOES public spending on security in 2008-2009 demonstrating the willingness of these companies to invest in efforts to neutralize this menace; these efforts have only a selective impact on overall citizen security. Beyond direct costs, crime and insecurity have an incalculable deleterious effect on the potential growth of El Salvador's business sector. The World Bank has projected that a ten percent reduction in the homicide rate in El Salvador could boost annual per capita income growth by one percent.

A 2011 report by the United Nations Development Program states that El Salvador is trying to respond to a double crisis in the sense that insecurity creates limits to economic recovery and the economic situation worsens the security situation.

Crime and insecurity also negatively affect the legitimacy of the authority and institutions of the government. The limitations of the state to combat and prevent crime can erode the confidence of the people and can undermine good governance. It is imperative that governments in the region have access to the resources required to fight crime. Responsible budget and tax policies ensure that efficient governments are able to meet the needs of their citizens. Crime and insecurity find their roots in both institutional and development challenges, and the GOES and USG are committed to advancing joint efforts under PFG address both these roots.

## **Strategy to address the constraint**

Organized crime and drug trafficking is a common enemy for the Government of El Salvador and the United States, and these illicit activities threaten the security of our two nations. Our joint agenda, based on the principle of shared responsibility, includes actions to dismantle criminal groups, the fight against arms trafficking and money laundering, social development issues, and efforts related to reducing drug use. The United States is dedicated to working with Salvadoran authorities in the formation of building strong Salvadoran communities that are able to provide opportunities for their people, and intends to work with the Government of El Salvador to share best practices for prosecutors, police officers, and judges, providing ideas on tracking criminals, drugs, arms, and money. The United States is dedicated to a comprehensive, balanced approach of prevention, treatment, and enforcement to reduce the demand of illicit drugs.

The United States and El Salvador intend to address this binding constraint to growth over the next five years by focusing on institutional strengthening and crime and violence prevention. In addition, we invite the international community and other actors to help reduce the effects of this constraint through specific lines of action related to our top-line strategy.

### **Institutional Strengthening**

Epidemic crime rates and impunity threaten the legitimacy of state institutions and broad-based economic growth. The justice and security sector needs to be strengthened across multiple institutions to reduce crime and increase security; ensure crimes are prosecuted with greater transparency, efficiency, and efficacy; and enhance the public perception of these government institutions. Fundamental institutional weaknesses with regard to investigative and organizational capacity of key justice sector actors inhibit an effective, sustainable response to criminality and perpetuate an unfair justice system. Sustainable, successful reform of key justice institutions requires a holistic, comprehensive strategy applied across multiple institutions. The USG plans to work with the GOES to focus on efforts to professionalize and reform police, prosecutors, judges, and security personnel; reduce crimes involving small and medium enterprises; and protect Salvadorans from crime on public transportation systems.

**Goal #1: Professionalize justice sector institutions to make them more effective in combating crime and insecurity in El Salvador, as well as enhance the public perception of these government institutions.**

#### **Specific Actions:**

- Improve the capacity and transparency of the institutional units responsible for combating crimes, and ensure accountability.
- Facilitate ongoing training and refresher courses in public safety and Justice institutions.
- Determine and promote the implementation of necessary changes in practices, regulations, and applicable justice sector laws.
- Strengthen the disciplinary units responsible for vetting in the National Civilian Police (PNC), the Attorney General's Office (AGO), the Supreme Court of Justice (CSJ), the Public Defender's Office, etc. and impart justice in accordance with the applicable procedures.



- Strengthen the capacity of the Human Rights Ombudsman’s Office (PDDH).

***What GOES intends to contribute to progress in this regard:***

- Implement the necessary changes in practices, policies, regulations, and applicable laws as identified throughout the project.
- Identify and make available appropriate staff to be trained.
- Ensure merit-based hiring of personnel within the framework of the proposal to modernize the State, a plan under the responsibility of the Secretary for Strategic Affairs, through the Sub-secretary for Governability and Modernization.
- Emphasize continuous vetting as a fundamental principle of the Security Plan of the Security Cabinet of the Government of El Salvador.

***The USG intends to:***

- Provide technical assistance to improve the management and investigative capacity of the Attorney General (AGO), Public Defender (PGR), and National Civilian Police (PNC), forensic services, judges and court personnel.
- Support the development of effective case management models; improving police/prosecutor coordination; providing better and more equitable access to justice; re-engineering processes and change management procedures in the common crime unit; establishing career paths and leadership development within the Judicial sector; increasing accountability and transparency in the sector by enhancing judicial oversight and investigative capabilities; supporting civil society; and strengthening crime observatories.

**Goal #2: Improve the effectiveness of the criminal justice procedures and practices so as to reduce crime and increase the security of the Salvadoran people.**

**Specific Actions:**

- Conduct an in-depth analysis of current criminal justice procedure and practices.
- Identify necessary changes to the law, or the application of the law, to facilitate effective strategies for pre-trial release (bail), pre-trial diversion (resolution without conviction), plea-bargaining, and sentencing alternatives in appropriate cases.
- Promote legislation or apply procedural reforms, as necessary.
- Strengthen a training program to train justice sector personnel (“train the trainers”) on the new legislation and new practices.
- Promote the necessary changes in practices, policies, regulations, and applicable laws as identified throughout the project.

***What GOES intends to contribute to progress in this regard:***

- Fully participate in programs to support the justice sector.
- Fully participate in analysis of the current codes.

***The USG intends to:***

- Provide assistance to promote increased coordination between justice sector actors and institutions; improve management and administration of justice sector institutions; and increase effectiveness of criminal investigation.
- Provide technical support in the areas of the pre-trial elements listed above as well as plea-bargaining (agreements with the public prosecutor's office).
- Provide technical assistance to conduct an in-depth code analysis, draft legislative fixes, and develop strategies to enhance criminal justice efficiency and effectiveness relating to criminal procedure, an evidence code, and internationally accepted law enforcement tools; and implementing such legislation, procedures, and strategies.

**Goal #3: Reduce the impact of organized crime on small and medium businesses, potentially the most dynamic sector of the economy whose contribution to growth is key to the economic well-being of El Salvador.**

**Specific Actions:**

- Utilize a special vetted unit of police and prosecutors to combat crimes against small and medium businesses with sufficient mechanisms to safeguard its integrity. Promote the use of special vetted courts to ensure proper adjudication of cases.
- Identify necessary changes to the law to provide deterrent sentences for crimes against businesses, and encourage the approval of such legislation.
- Identify necessary institutional reforms to make progress sustainable.
- Intensify ongoing intelligence sharing that contributes to crime fighting.

***What GOES intends to contribute to progress in this regard:***

- Maintain a permanent exchange regarding the employment status of special units and personnel trained and advised in accordance with Salvadoran procedures and regulations.
- Improve supervision and control in accordance with the system of indicators of the Security Cabinet.
- Support the implementation of necessary changes in practices and regulations and promote the approval of the necessary legislation.
- Provide personnel, equipment, and facilities.

***The USG intends to:***

- Provide technical assistance, training, and mentorship for the units used to combat and prosecute crimes against businesses; and facilitate engagement between GOES and private sector.

**Goal #4: Facilitate economic growth by ensuring El Salvador's labor force is protected from crime while transiting to and from work, and ensuring that the public transportation service providers serving the labor force are protected from crime.**

**Specific Actions:**

- Utilize a vetted special unit of police and prosecutors to combat crimes related to public transit with sufficient autonomy to safeguard its integrity. Promote the use of special vetted courts to ensure proper adjudication of cases.

- Identify necessary changes to the law to provide deterrent sentences for crimes related to public transit, and encourage the approval of such legislation.
- Identify necessary institutional reforms to make progress sustainable.

***What GOES intends to contribute to progress in this regard:***

- Maintain a permanent exchange regarding the employment status of USG vetted or USG trained and advised personnel in accordance with Salvadoran procedures and regulations.
- Improve supervision and control in accordance with the system of indicators of the Security Cabinet.
- In collaboration with the USG, review the current regulations of the public transportation sector, and identify areas to improve transparency and accountability.
- Implement necessary changes in practices and regulations and encourage the approval of the necessary legislation.
- Provide personnel, equipment, and facilities to support this program.

***The USG intends to:***

- Provide technical assistance, training, and mentorship for the vetted units to combat crimes involving public transit, and facilitate cooperation between GOES and private sector.
- Provide technical assistance to help increase the transparency and accountability of the public transport system.

**Goal #5: Remove assets from criminal organizations and fund and support security programs through the use of seized property and assets.**

**Specific Actions:**

- Create a committee comprised of GOES and USG experts to encourage the approval and implementation of a complete asset forfeiture law as well as considering improvements to legislation to combat money laundering. Consideration should be given to using a portion of forfeited assets to fund crime prevention programs.
- Strengthen units in charge of financial investigation in the Police Force and Attorney General's Office.

***What GOES intends to contribute to progress in this regard:***

- Submit and encourage the approval of necessary legislation in support of this goal.

***The USG intends to:***

- Designate a Financial Crimes advisor in El Salvador on an intermittent basis to work with the GOES financial regulation authorities, the Attorney General's Office; and the Financial Intelligence Unit.
- Provide technical assistance to conduct an analysis of current laws, draft and implement legislative fixes, and develop strategies to enhance criminal justice efficiency and effectiveness relating to money laundering and comprehensive asset forfeiture, including the appropriate management and disposal of forfeited assets.

**Goal #6: Professionalize El Salvador's civil service and enhance public confidence in the government.**

**Specific Actions:**

- Review the draft civil service law and revise if necessary. The law should address how to:
  - Apply hiring and performance standards for public employees.
  - Develop a merit-based selection process.
  - Establish internal regulations and procedures which include performance standards and routine compliance reviews.
- Implement the Access to Public Information Law to:
  - Establish the Access to Information Institute and develop its internal regulations.
  - Establish Access to Information Units in each GOES entity.
  - Training of Information Officers and Public Servants in general.
  - Enhance records management systems to provide timely information.

***What GOES intends to contribute to progress in this regard:***

- Facilitate a discussion of the reforms with relevant sectors of the Salvadoran society through public and closed hearings.
- Provide the necessary resources to implement the new law.
- Select the members of the Access to Information Institute in a merit-based fashion, in accordance with established law and regulations.
- Provide adequate budgetary resources for the functioning of the Institute of Access to Information, and the Access to Information Units.

***The USG intends to:***

- Provide technical assistance to promote and facilitate comprehensive civil service reform.
- Support GOES in increasing responsiveness to accountability towards its citizens through increasing transparency in government and ethical behavior by public officials.

**Goal #7: Promote a national dialogue on actions to improve citizen security in El Salvador. Actively involve all sectors of national life, including the private sector, the media, nongovernmental organizations, churches, etc. in efforts to solve the problem of insecurity.**

***What GOES intends to contribute to progress in this regard:***

- Pursue the relations necessary to secure commitments at all levels in the fight against organized crime.
- Report periodically on progress in security plans and investments in security.

***The USG intends to:***

- Promote El Salvador's positive national dialogue related to improving citizen security and understand the roles of all stakeholders in making a more secure society.

## **Crime and Violence Prevention**

As learned from other successful international experiences in reducing crime, successful anti-crime strategies include a balance of effective enforcement and prevention activities, as well as a decentralization of authority to the lowest governance level possible. El Salvador has already recognized the role of the municipalities in combating and preventing crime. Through PFG, the GOES and USG will work together to expand services for youth-at-risk, including business creation, job placement, and school-based initiatives, as well as to support community policing at the national level.

**Goal #8: Assist at-risk youth between ages 16-25 through efforts to afford them economic opportunities and engage them in productive activities.**

### **Specific Actions:**

- Support the Ministry of Labor in the implementation of the National Youth Employment Action Plan.
- Commitment by the National Commission of Micro and Small Enterprise to develop a self-employment program and micro-enterprise activities.
- Assist the private sector in building alliances to identify specific employment opportunities for at-risk youth.

### ***What GOES intends to contribute to progress in this regard:***

- Find beneficial participants and make efforts to identify promising job and education opportunities for the graduates of the training program. The Ministry of Labor is dedicated to ensuring that their national policy for youth employment encourages the employment of these individuals, and that the National Commission of Micro and Small Enterprises takes steps to facilitate the pursuit of beneficial self-employment opportunities.
- Promote the establishment of a strategic partnership with the private sector to generate employment opportunities for at-risk youth and youth in the process of rehabilitation.

### ***The USG intends to:***

- Create a training program including vocational courses, remedial education, life skills and job skills training, community service, internships and job placement directed to at-risk youth. The US Government is dedicated to working with NGOs and local educational institutions in the identification of technical/vocational programs to be offered for at-risk youth.
- Engage the private sector and local academic institutions to offer greater workforce training and vocational programs to better align the labor force's skills with current market demands. Engage with the private sector to promote greater involvement by the business community in educational programs that target at-risk youths.

**Goal #9: Support the PNC to strengthen its service orientation as a means for violence prevention and effective crime control with a focus on building leadership skills within the police force and on improved relationships between police and communities.**

**Specific Actions:**

- Continued commitment to a wide-scale effort to incorporate community-based policing as a force-wide approach nation-wide.
- Establishment of a permanent community policing leadership training program for police
- Promote the decentralization of decision-making processes in the PNC to empower police at the local level.
- Expand community policing activities, including model precincts, piloted in five municipalities.

***What GOES intends to contribute to progress in this regard:***

- Demonstrate political will at the senior and mid-levels of the police to adopt community policing practices.
- Continue to encourage implementation of the Ley de la Carrera Policial (Police Career Law).

***The USG intends to:***

- Targeted technical assistance to the PNC in adopting a force-wide community-based policing approach that is already being piloted in the country and championed by the PNC.
- Training venues for the aforementioned force-wide community-based policing approach, sponsor regional officer exchanges to promote a regional approach to community-based policing and identification and implementation of best practices.

**Goal #10: Improve educational opportunities for in school and out of school youth in targeted high risk municipalities with high crime rates. The USG is dedicated to supporting the Ministry of Education in implementation of their “Social Education Plan” and the GOES’ “Five Year Plan” by focusing efforts on the four areas of concern described in the plan.**

**Specific Actions:**

- Improve educational outcomes for lower secondary school students.
- Increase access to educational opportunities for out of school youth.
- Strengthen technical and administrative capacity of principal implementing partner and sub-grantees.

***What GOES intends to contribute to progress in this regard:***

- Ensure participation of teachers, administrators, students, and parents.  
Sustain the leadership and commitment of the Ministry of Education to implement the full-time inclusive schools strategy.

***The USG intends to:***

- Provide technical assistance; training for school principals, teachers, community, students in safe schools and full time inclusive schools; institutional strengthening of local implementing partners; sharing evidence-based practices in safe schools; monitoring and evaluation.

**Goal #11: Prevent crime and violence in key municipalities of El Salvador and support reforms, as outlined in components 2 (Social Prevention of Violence and Crime) and 5 (Institutional and Legal Reform) of the National Policy for Justice, Public Safety and Violence Prevention.**

**Specific Actions:**

- Promote the dedication of resources to fund municipal government crime prevention plans and initiatives.
- Build municipal- and community-level capacity for enhanced crime and violence prevention programming and decentralize decision-making.
- Include civil society in municipal-level prevention planning and initiatives.
- Generate political will of communities and municipal officials to work together with the PNC and private sector on crime and violence prevention.
- Support development of public-private sector alliance building on prevention.
- Review components 1, 3 and 4 of the National Policy for Justice, Public Safety and Violence Prevention to identify other areas for USG support and hold additional discussions.

***What GOES intends to contribute to progress in this regard:***

- Identify dedicated staff to develop and support municipal crime prevention councils.
- Identify dedicated funding to implement crime prevention plans at municipal level.
- Promote the decentralization of authority and responsibility for preventing crime to the municipalities.
- Improved coordination among line ministries with a stake, resources and mandate for addressing key risk factors (lack of access to education, and employment opportunities).
- Strengthen the cooperation between the government security organizations and said communities.
- Implement vocational training for at-risk youth.

***The USG intends to:***

- Provide technical assistance to promote and facilitate components 2 and 5 of the strategy.
- Explore the provision of loan guarantees to facilitate financing of public goods at municipal level (i.e. sanitation, infrastructure).
- Region-wide study of the issue of violence and security as it impacts community groups in the hemisphere to bring the community-level experience from the region to bear in El Salvador.

**Goal #12: Reduce overcrowding in prisons, thereby allowing the Salvadoran prison system to safely, securely, and humanely manage an increasing population.**

**Specific Actions:**

- Improve the prisoner classification system and including the strategy for separating out the most violent offenders; increase focus on rehabilitation for appropriate groups of prisoners.

- Implement a plan to expedite the review to extend privileges and liberties to convicted non-violent defendants, as established by law.
- Designate certain prisons for minor/non-violent offenders and/or provide for separate holding facilities within a single facility to separate prisoners; and assure that minors are segregated from adult offenders.
- Improve educational and vocational rehabilitation programs for inmates, including strengthening of the Penitentiary School.
- Create and implement a comprehensive substance abuse treatment and prevention programs for current inmates and juveniles in custody.
- Support and strengthen an integral project with the private sector to address ex-offenders.
- Implement a plan to monitor sentence compliance of individuals convicted of organized crime, especially related to Art. 345 of the Criminal Procedures Code.

***What GOES intends to contribute to progress in this regard:***

- Improve the prisoner classification system.
- Build a new prison facility and three prison farms, and implement an aggressive reintegration program.

***The USG intends to:***

- Provide technical assistance in the management of prisons/corrections, including mentoring and limited training in order to develop prison/correction officer train-the-trainer program, and develop and implement prison classification system.
- Explore ways to work with U.S. state/local institutions, the Governments of Mexico, Colombia, and U.S. interagency actors.
- Provide technical support in parole systems and prisoner classification systems.

**Goal #13: Enhance the security of the prisons for their improvement as correctional facilities, prevent them from perpetuating and magnifying criminal activity in El Salvador, and help former offenders become full, contributing members of society.**

**Specific Actions:**

- Strengthen the prisons' internal and external security plan by boosting actions to clear the immediate external perimeter, and limit the ability of prisoners to communicate externally.
- Strengthen the Prison Intelligence Joint Center.

***What GOES intends to contribute to progress in this regard:***

- Improve the recruitment, training, management, and monitoring of prison personnel to ensure integrity and effectiveness within the prison system.
- Continue the "Zero Corruption" program.
- Strengthen the Penitentiary School.
- Strengthen the penitentiary information system.

***The USG intends to:***



- Continue to make available the equipment, training and expertise needed to enhance security in the prisons, to include recommendations on technology that will aid in security.

**Goal #14: Promote the use of extraditions as a deterrent for crime and a means to reinforce national security.**

**Specific Actions:**

- Recognize extradition as an important element of the national public security strategy.
- Hold bilateral consultations to discuss ways to enhance the extradition process.
- Advance bilateral goals toward expeditious resolution of pending extradition cases.
- Encourage the passage of legislation to provide more effective implementation of extradition.

***What GOES intends to contribute to progress in this regard:***

- Declare that extradition is an important tool in the fight against violent crime, organized crime, and narcotics trafficking.
- Taking into account the outcomes of bilateral consultations, consider ways in which the bilateral extradition relationship can be enhanced.
- Examine existing extradition legislation, and consider legislative changes, with a view to enhancing the effectiveness and efficiency of the extradition process.
- If necessary, encourage subsequent consultations concerning the need for a new Extradition Treaty.

***The USG intends to:***

- Technical assistance to draft legislative fixes, develop strategies to enhance criminal justice efficiency and effectiveness relating to effective laws and procedures regarding extradition; and implementing such legislation, procedures, and strategies.

## **CONSTRAINT #2: LOW PRODUCTIVITY IN THE TRADABLES SECTOR**

### **Background**

Tradables are those goods and services which are or can be traded internationally and whose prices are set on world markets. The Constraints Analysis (CA) indicated that the issues limiting El Salvador's productivity in tradables are factors of productivity - physical capital (infrastructure), human capital, and financial capital—and the institutional environment in which tradables firms operate.

### **Strategy to Address the Constraint**

Private investment plays an important role in galvanizing the economy. The competitiveness of exports is a centerpiece of any growth strategy. The GOES acknowledged this in its Five-Year Development Plan 2010-2014 (PQD for its Spanish acronym). The Plan echoes the need for a domestic and international private sector that contributes capital, technology and entrepreneurship. In order to be successful, an economic growth plan relies on the involvement of and understanding between the private sector and government – based on transparency, communication, and clear policies that support and drive innovation.

### **Improve the institutional environment**

PFG should contribute to maintaining an environment that spurs private investment, competitiveness, and export potential. One of its primary interests, therefore, is to encourage suitable relationships between the GOES and private investors so that they are working towards a common goal.

**Goal #1: Facilitate the establishment of a Growth Council to promote an environment of trust and improve the business climate (as measured by the Doing Business indicators) and investments in activities or sectors regarded as strategic. The goal in this area is that, by the end of the PFG, the GOES and the private sector will have established a relationship based on trust, understanding and clarity, in which private investment can have the greatest impact, spurring inclusive economic growth and improving social conditions in El Salvador.**

#### ***The GOES intends to:***

- Officially establish a Growth Council at the national level made up of five representatives from the business community and five GOES officials, which will consult with the President on a quarterly basis. The objective of the Growth Council is to remove bottlenecks to growth by facilitating a climate of trust, communication, and collaboration between the two sectors; to discuss challenges and develop options for improving productivity; to monitor, evaluate, and report on PFG progress. The Growth Council will publish annually the results of diagnostic work using a series of indicators on bottlenecks to private sector investment.

- Respond in writing to formal recommendations of the Growth Council within a reasonable time.
- Ensure that the Growth Council consults on a regular basis with El Salvador's Economic and Social Council (CES), to better inform both bodies of the work and successes of each.
- Use good offices in support of the creation and functioning of municipal-level councils aimed at encouraging competitiveness and growth.
- Launch a national program of women producers and entrepreneurs.
- Improve the civil service through targeted civil service reform of those areas identified by the Growth Council as bottlenecks to competitiveness in tradables and continue to pursue legislation aimed at broad-based civil service reform.
- Pursue efforts to address shortcomings identified with the World Bank/IFC on the Doing Business Indicators.
- Continue to research the challenges of productivity of the tradables sector.

***The USG intends to:***

- Use its good offices to ensure that the relationships between all segments of the private sector, domestic and international, and the GOES transpire in a constructive and complimentary atmosphere.
- Provide technical assistance in establishing the Salvadoran Growth Council, municipal councils and share best practices from the U.S. Council on Competitiveness.
- Promote actions and measures to improve “doing business.”
- Support the GOES in identifying new strategies for improving the investment environment and developing operations in sectors and activities that have been identified as priority for the growth and development of the Salvadoran economy.
- Provide technical assistance in continued research into the challenges of productivity of the tradables sector.

**Investment in infrastructure**

According to the PFG analysis, while progress has been made in the country's current infrastructure, certain areas still need to be developed. The Government of El Salvador's vision of economic growth identifies infrastructure projects as the keystone for coordinating a logistical platform and generating renewable energy, which will serve as the basis reducing production costs and consequently increasing investment in the tradables sector.

**Goal #2: Reduce firms' costs due to infrastructure to improve their competitiveness.**

***Continuing its ongoing efforts in this regard, the GOES intends to:***

- Submit the draft Public-Private Partnership bill, work towards its enactment, and secure the institutional strengthening required for its implementation.
- Concession of the specialized multi-terminal Container Port, Stage 1, of the Central American Port of La Union.
- Support the development of areas adjacent to the La Union Port facilities.

- Modernize and expand El Salvador’s International Airport and seek out the best public-private participation options.
- Promote a regulatory framework for renewable energy (MRER by its Spanish acronym).

*The USG intends to:*

- Provide technical support and assistance for public-private partnership legislation and project management.
- Strengthen the public-private partnership management capacity at PROESA.
- Provide technical assistance to support CEPA (Port Authority Executive Commission) in its effort to successfully complete a thirty-year operating concession of the Port of La Unión.
- Back the La Union port concession by supporting GOES efforts to attract world class private operators.
- Explore financing options for additional investments to upgrade the La Union port.
- Provide technical support for air freight and airport infrastructure development once the airport has been concessioned.
- Provide technical assistance in developing renewable energy.
- Support knowledge transfer on capabilities for generating renewable energy.

**Human capital**

The PFG analysis revealed serious shortcomings in human capital development in El Salvador. The GOES believes that investment in human capital and innovation is necessary in order to develop an array of tradables featuring a strong technological component consistent with international demand. Moreover, the private sector has repeatedly asserted that the workers’ skills sets do not match the labor expectations of the business sector. We must therefore look for better opportunities to bridge this gap through progress in vocational training, higher education, and schools that encourage innovation and technology.

**Goal #3: Improve the quality of the education system in order to create a more highly qualified and technologically skilled labor force. The Governments of El Salvador and the United States will join forces to help ensure that education of the labor supply matches labor market demand, and they pledge to carry out the actions outlined below. The success of these actions will facilitate a cumulative investment in human capital that will boost the productivity of labor and of the tradables sectors.**

*The GOES intends to:*

- Develop an education and employment plan for youth and women.
  - Training programs in the English language and information and communications technologies (ICT) for the employed population and for youth.
- Commit to making transformational reforms necessary to improve the quality of El Salvador’s education system.
- Create a talent network of Salvadorans living abroad.
- Support youth insertion in the labor market.

- Improve basic computer training programs for entry level positions and for employees.
- Improve English for the workplace programs for entry level jobs and for employees.
- Strengthen and enhance productive diversification through scientific and technological innovation.
- Focus on innovation and technological development in priority tradables sectors for the Salvadoran economy (e.g.: agro-foods, marine resource development, and development of the coastal-marine belt).
- Design and create a program for the transfer and assimilation of ICT through public-private partnerships.
- Strengthen INSAFORP (Salvadoran Institute for Professional Training) to orient their training programs toward strategic activities and identify synergies between separate initiatives for vocational and technical training.
- Improve capacity to collect, analyze, use and disseminate labor market data in order to correct mismatches between labor supply and demand.
- Use better data and analysis to project labor market demand in key tradables sectors, and transform vocational training programs.
- Develop a youth scholarship program.

***The USG intends to:***

- Support teacher training in English.
- Provide technical support to build the work skills of young people ages 16 - 25. (Access to work program and training of at-risk youth).
- In consultation with the GOES, develop alliances, provide technical skills and language training assistance and develop alliances to improve access to employment for youth in El Salvador's tradables sector.
- Technical assistance to improve labor market information systems to better match employers' needs and employee skills.
- Help GOES build the capacity to conduct the surveys and analyze data needed to match labor supply with present and future labor market demand.
- Help GOES improve services for job seekers, including through career counseling, web-based labor market information tools, and partnerships between industry and educational institutions.
- Work with the GOES on efforts to improve tertiary training and higher educational quality linked to workforce needs, gaps, and opportunities.
- Technical assistance to focus on innovation and technological development in priority tradables sectors.
- Support the development of a youth scholarship program.
- Support implementation of a talent network with Salvadorans living abroad.
- Assist GOES in launching a dialogue between government, business and labor on strategies to encourage the creation of good jobs and improve productivity and competitiveness.

**Strengthening tax collection and transparency**

At present the GOES does not collect enough revenue to make necessary investments and it is rated poorly by international standards in terms of its ability to collect taxes. An improved tax

administration and revenue collection system will provide the Salvadoran government much needed domestic financing to fund its development initiatives. The Constraints Analysis points out that “Paying Taxes” is the Doing Business Indicator in which El Salvador performs worst, with a global rank of 137, putting it in the bottom quartile of all economies. El Salvador is committed to improving its taxpayer database and information systems, reducing tax evasion and making select fiscal and tax policy reforms. In addition, it will be essential that the Salvadoran private sector and government reach a workable solution to the Pacto Fiscal and that GOES’ public expenditure system improves transparency and clearly demonstrates how revenues are being used.

**Goal #4: Raise (net) tax revenues to 16 percent of GDP by 2015 and use public resources efficiently and transparently. These goals are also included in the implementation of the fiscal pact, which is an integral part of the PQD priority areas, as defined by the Economic and Social Cabinet.**

*The GOES intends to:*

- Improve its information systems and taxpayer databases to reduce tax evasion and avoidance.
- Improve transparency and efficiency in the use of public resources.
- Improve legal and accounting systems and strengthen rule-based government to be able to move toward results-based budgeting in several sectors.

*The USG intends to:*

- Engage in programs to optimize processes, promote greater transparency, and ensure that taxpayer rolls are consistent and transparent.
- Provide technical assistance to improve tax administration and reduce evasion and avoidance.
- Provide technical assistance to develop a results-based budget with a multi-year perspective.
- Support to implement the Law on Access to Public Information.
- Provide technical assistance to improve customs administration.
- Offer programs to improve tax collection.
- Support improved tax collection at the municipal level through Domestic Finance for Development (DF4D). DF4D supports domestic revenue mobilization, transparency and anti-corruption, each activity reinforcing the other and putting developing countries on a stronger path towards sustainable and broad economic growth and opportunity.

**Attracting foreign direct investment**

Both governments are aware that foreign direct investment (FDI) flows into El Salvador have been stalled in recent years. Foreign investment was among the lowest of all Latin America. FDI is pivotal to surmounting low productivity of tradables and poor economic growth. FDI helps offset reduced domestic investment levels and facilitates knowledge transfer. FDI also contributes to effective insertion in the international market through innovation, the technological dissemination, and managerial capabilities.

**Goal #5: Support a strategy for attracting and promoting FDI and making El Salvador a more attractive place for foreign investment. The measures described are aimed at streamlining the establishment of operations for potential investors and simultaneously focusing on and scaling up efforts to promote and attract investments.**

*The GOES intends to:*

- Strengthen institutional capacity to conduct market studies.
- Encourage investments from Salvadorans residing in the United States.
- Strengthen, finance and support the Ministry of the Economy and PROESA to implement the proposed measures.
- Continue ongoing efforts to develop and implement the Integrated Investor Attention System (SIAD).
- Develop and implement a strategy to address the causes and barriers that have kept investors from setting up operations in El Salvador.
- Strengthen high quality infrastructure in the inspection, certification and laboratory test services offered by the Plant Health Department (DGSV) under the Ministry of Agriculture and Livestock.
- Strengthen PROESA's institutional capacity to identify and prioritize strategic sectors for the promotion and attraction of investments and for the development of an investment promotion strategy.
- Design and implement a country image strategy based on studies of the perceptions of the business sector in the United States and other countries of interest, in order to boost investment and trade.

*The USG intends to:*

- Offer institutional strengthening of PROESA in trade and investment facilitation.
- Support improvements in the local business climate through the Municipal Competitiveness Project; provide technical assistance to municipal councils.
- Partner with the IFC to use Doing Business Indicators as a diagnostic for the Growth Council.
- Undertake a review of the laws and processes in El Salvador that facilitate investment in order to create an incentives system tailored to different types of investors in key sectors.
- Support GOES in the design and implementation of a country image strategy based on studies of the perceptions of the business sector in the United States and other countries of interest, in order to boost investment and trade.

**Strengthening institutions and businesses for internationalization**

In order for El Salvador to see significant improvement in the productivity of its tradable sector, the exporting firms and the institutions involved in export will have to regularly improve their competitiveness. The government's vision of the PFG is geared towards promoting the competitiveness of the Salvadoran productive sector in order to bridge gaps in competencies and insert the country into international trade flows.

**Goal #6: Surmount low productivity of tradables by transforming factors of production of the tradables sector through the implementation of strategies to improve innovation and quality, and a focus on the international market. As a result of PFG, Salvadoran firms will be more prepared to confront global markets and compete successfully and the necessary institutions will be prepared to support them.**

*The GOES intends to:*

- Strengthen the technical capacity of PROESA.
- Strengthen the Ministry of Economy and PROESA to continue developing the production and export strategy which improves innovation and quality.
- Work with the USG to facilitate the export process.
- Create an integrated system to serve small and medium enterprises seeking to export.
- Strengthen and increase diversification through innovation.

*The USG intends to:*

- Provide technical assistance for the Ministry of the Economy and PROESA to serve SMEs seeking to export.
- Support the establishment of small business development centers throughout the country.
- Increase internationalization of Salvadoran firms through guided processes or “mentoring.”
- Explore ways to facilitate the speed of exports from El Salvador to the United States and reduce the rejection rate of Salvadoran exports at the United States border.
- Support the increased participation of the Salvadorans living abroad in the Salvadoran economy.
- Promote opportunities for bi-national business alliances in the tradables sector.



## **MONITORING AND EVALUATION**

The primary goal of PFG is to advance sustainable, broad-based economic growth in El Salvador. Progress on the commitments made in this Joint Country Action Plan will be subject to evidence-based monitoring and evaluation (M&E) by the United States and Salvadoran governments. Both the GOES and the USG are committed to developing an addendum to this Plan that describes the M&E framework and mechanisms within 90 days of the signing of the present document. The M&E Plan for El Salvador will ensure that progress is made on El Salvador's particular constraints to growth. The information collected on the progress of PFG in El Salvador will inform an overarching M&E mechanism that will evaluate the PFG approach across all PFG partner countries.

The JCAP remains flexible and is to be reviewed annually in order to make course corrections and adjustments for subsequent implementation, as agreed to by the GOES and the USG. The M&E addendum will serve three functions. First, it will identify key goals, objectives, performance indicators and expected development impacts for PFG lines of action. Timing, benchmarks, targets and corresponding baseline data should be considered for each objective or indicator. Second, the M&E addendum will describe the mechanisms and frequency of reporting and evaluation. Finally, the M&E addendum will outline USG and GOES contributions and responsibilities for the monitoring and evaluation of PFG. The M&E addendum will take into account inclusion of civil society and the private sector.

The M&E addendum is meant to evaluate progress on each constraint to growth, as well as the PFG effort as whole, and may include the following activities: annual implementation monitoring; annual meetings of USG and GOES to discuss progress; annual performance reporting that is public and based on chosen indicators and benchmarks; mid-term implementation assessments; and third-party evaluations. In addition to commissioning reports, the GOES and USG should undertake periodic public consultations as part of PFG to validate progress and inform future programming. Evaluations will be conducted at the end of key activities.

## **CONCLUSION**

The Partnership for Growth represents an unprecedented level of cooperation between our countries. It is a departure from business-as-usual for both the United States and El Salvador in that it is based on shared analysis and fueled by a shared commitment for results. As one Salvadoran official remarked, the PFG provides a "good way to make tough decisions." We believe tackling these decisions together, and in a systematic manner, provides the best recipe for progress. Such progress is in the long-term interests of both the Salvadoran and American people.