El Salvador

Introduction

The global financial crisis hit El Salvador hard. Exports dropped, food and energy prices rose and remittances fell – from 20% to 17% of GDP – as El Salvadoran workers in the US were laid off. As a result of higher unemployment and increased food and medicine costs, poverty levels increased too. More than 40% of the population live below the poverty line. Yet the government spent $970 million in 2011 (24% of government revenue) on paying foreign debts, most of which were inherited from the vicious junta of the 1980s.

Origin of debt crisis

In 1979 a military junta, backed by the United States took power, provoking a civil war in which an unknown number of people were disappeared and 75,000 killed. Throughout this time the junta were supported with extensive loans. Between 1979 and the end of civil war in 1992, the country's debt increased from $500 million to $2.2 billion – half of the lending came from foreign governments, primarily the US, and one third from international institutions, primarily the Inter-American Development Bank, IMF and World Bank.

Government external debt

- $6.5 billion
- 28% of GDP

Private external debt

- $4 billion
- 17% of GDP

Government external annual debt payments

- $970 million
- 24% of revenue
- 15% of exports

At the end of the war, government foreign debt payments were over 20% of exports. During the 1992–2009 period when the right-wing ARENA party held the presidency – a period popularly known as the *"civil dictatorship"* – neo-liberal economic reforms were pushed hard by Washington through conditions on aid and loans. This included abolishing property tax and cutting income and import/export taxes, thus greatly reducing the state's revenue and making it more dependent on loans. Between 1989 and 2009 the government sold off assets valued at over $5.7bn, yet received only $334m for them, according to the US-based Committee in Solidarity with the People of El Salvador (CISPES).

As a result the country's debt shot up at the turn of the millennium, when El Salvador switched to the dollar. The global financial crisis further weakened El Salvador's economic situation, with the country entering recession in 2009.

National University professor Raul Moreno claims increased foreign investment and privatisation, promoted under the US-backed administrations, worsened labour conditions and sent profits overseas, causing greater indebtedness.

Life and debt in El Salvador

According to the UN, 12% of the population are malnourished, up from 9% at the turn of the millennium. The World Bank says 17% of the population live on less than $2 a day, barely down from 19% in 1995.[22]

Between 2000 and 2011 **food costs** rose 55%. Between 2007 and 2008 food as a percentage of household expenditure rose from 22% to over 30%. The **underemployment** rate, defined as a lack of work sufficient to sustain a dignified life, jumped to 50% – 62.4% among under-24s – according to the UNDP. The growth of insecure, low-paid jobs has led to a loss of purchasing power. And with a lack of work, on average, 740 people **emigrate** to the US every day.[23]

Faced with this dire economic situation El Salvadorans elected their first left-wing FMLN-led government in 2009. They were rewarded with unprecedented increases in **social spending** – from $35m in 2008 to $201m in 2012. Over 1.4m public school students are now receiving school supplies, uniforms and shoes,

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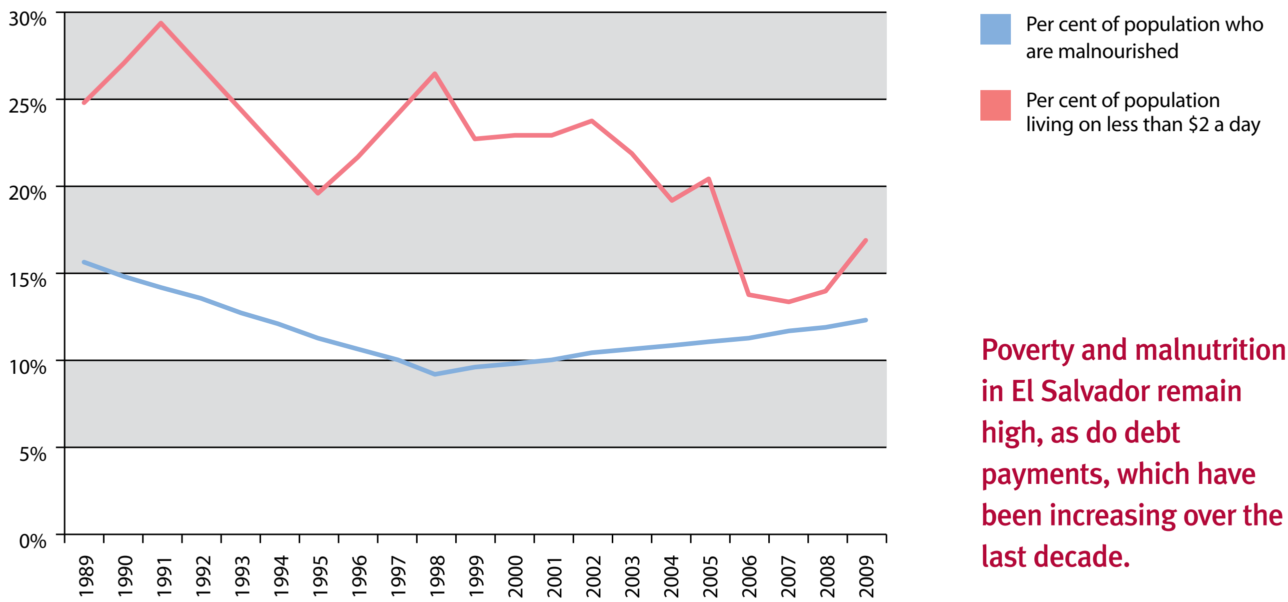

Poverty and malnutrition in El Salvador remain high, as do debt payments, which have been increasing over the last decade.

Figure C2: Hunger and poverty in El Salvador[24]

1.3m are receiving free school meals, while over 180,000 adults graduated from the National Literacy Programme by the end of 2012. Nearly 250,000 family farmers received free seeds, resulting in a record harvest last year.[25]

The system of 'voluntary' payments for **healthcare** was abolished on the first day of FMLN government. Medicines, clinics and hospitals are now free. As a result, maternal and infant mortality rates declined and El Salvador recently met the UN MDG for the reduction of infant mortality – four years ahead of schedule. But these initiatives are under threat as the IMF exerts renewed pressure to reduce spending.

Since 2009 El Salvador has had an on-off agreement to borrow up to $800 million from the IMF, though has not taken any of the money to date. The main reason for having the loans available was to be able to bail out private banks, most of which are foreign owned, in the event of a banking crisis.[26] Because El Salvador uses the dollar rather than its own currency, the central bank does not have the ability to lend money it creates to banks that get into trouble if depositors take their money out. While the loans have not yet been drawn on, El Salvador has had to implement IMF conditions in order for them to remain available.

The main condition of the 2009 IMF agreement was to keep the public sector deficit at less than 2.8% of GDP. But the global financial crisis hit El Salvador much harder than predicted by the IMF, with the economy shrinking by more than 3% in 2009. In reality, within just three months, the fiscal deficit broke the IMF conditions, as the FMLN government maintained spending to support the economy and improve social outcomes.

In 2010, a new agreement was reached with the IMF, on the same basis as before.

Once again, actual outcomes were worse than the IMF predicted, with growth of 1.6% in 2012 rather than the 3% prediction, meaning the budget deficit was higher than the IMF-imposed target.

Concerned at the current government's failure to implement the extreme cuts demanded in social spending, the IMF has used negotiations on future possible loans to demand that all political parties agree a predetermined set of IMF-endorsed economic policies so that whoever triumphs in the elections in 2014 and 2015, the IMF also wins. It's democracy – IMF style.

One key area for the IMF and the US is the push for **public-private partnerships** (PPPs) as an alternative to public investment. The recently-adopted P3 – or Public-Private Partnership law – is the initiative of a bilateral US-El Salvador agreement, Partnership for Growth (PFG), signed by the previous ARENA government with no parliamentary debate. The agreement identifies insufficient foreign investment as the main reason for poverty and low economic growth and proposes PPPs as the solution.

Drawn up with the assistance of advisors from the World Bank, US Treasury Department and the IMF, campaigners fear the P3 will lead to massive lay-offs, wage cuts and anti-union persecution. The original bill envisaged auctioning off the running of everything from highways, ports and airports to municipal services, schools, healthcare, roads, higher education prisons and water systems, to private companies – mainly foreign multinationals.

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New PPPs in agriculture would require bidders to have a minimum capital of $100,000 and be producing export crops – meaning local farmers would not be able to participate – and more land would go to export crops instead of improving food sovereignty through local food production for local use.

While these efforts offer abundant profit opportunity to transnational corporations, they pose a serious threat to labour conditions and social welfare. Raul Moreno claims P3s are *"part of a model that has already demonstrated its failure in El Salvador – a mechanism to bring profits to foreign corporations, diverting revenue from the state into private hands at the expense of public services"*.

The law set out to create a standardised mechanism to sell off public services, grant concessions for 40 years and introduce changes to the law to remove the requirement that each privatisation be debated and voted on in parliament. The Bill even mandated that the government pay 1% of the contract value to losing bidders. US Ambassador Mari Carmen Aponte publicly threatened to withhold up to $400m in development aid if the P3 law was not passed.[27]

FMLN legislators, backed by mass public campaigns, were able to force significant changes in the Bill before it became law in May 2013. They successfully pushed to exclude public healthcare, education, water, public security and prison administration. However ARENA legislators are already threatening to amend the law to reinstate them in the future.

Opponents also secured a guarantee that all contracts over £10 million will continue to require legislative approval and established an auditor to issue sanctions for contract violations. Despite this, unions and campaigners fear the law will lead to lower wages, fewer jobs and growing poverty. Jaime Rivera of electrical workers' union STSEL warns *"we as a country would lose the opportunity to own companies that generate resources for social investment, forcing us to borrow and then pay back more, all from less resources"*.

Photo: CISPES

Protest in San Salvador demanding the passage of a Water Law to guarantee all Salvadorans' right to water and prevent any privatisation, August 2013.

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The experience of previous such agreements is a warning to El Salvadoran civil society. Canadian mining company Pacific-Rim is currently suing El Salvador for more than $400 million, a claim almost double the annual amount of US aid. It has been told that its case – that the government unfairly failed to license the opening of new mining operations – can proceed by a World Bank panel, known as the International Centre for Settlement of Investment Disputes. This part of the World Bank, which exists to enable corporations to sue governments (but not vice versa), will rule soon.

Resistance and the demands of activists

One response to austerity and the threat to recent social advances is the launch of the Citizens Movement 'Five More' – bringing together human rights, indigenous and social justice organisations to build public support for the continuation of transformative programmes and calling into question privatisation and the validity of the country's debt.

Alongside other social movements and church organisations they back calls to follow the example of Ecuador and launch a **debt audit**, believing much of the debt to be illegitimate and corrupt. Campaigners point to the fire sale of state assets as one sign of the **corruption** of previous governments but also to examples such as past governments borrowing funds to rebuild the Maternity Hospital that was damaged in the 2001 earthquake. Not a brick was laid. Former officials, including the ex-minister of health, were arrested on corruption charges by the new administration but the poor are still paying the cost of the debt.

Among their other demands are more actions to build **economic justice** – an increased minimum wage, fiscal reform, progressive taxation and an expansion of collective bargaining. Campaigners want action to tackle tax evasion, especially by big corporations. They demand the elimination of borrowing from the IMF, World Bank, Inter American Bank or any conditional aid which does not benefit the people.

A group of civil society organisations recently issued a statement arguing for an audit and cancellation of unjust debts on the basis that *"the debt is a central question dictating political and social agendas. The current economic model uses the indebtedness as its principal mechanism for its own survival – structural adjustment programmes have included the privatisation of public services, cuts in social spending, reductions of subsidies. The main cost of repaying these debts is to transfer them to the population as a whole – to socialise the debt, to make those already living in conditions of poverty pay. The debt represents a heavy weight on El Salvador and impedes our development and the exercise of our human rights. The conditions linked to the loans and debts have weakened the power of the state and handed it to corporations and financial institutions"*.[28]

At the centre of the fight is the battle against the impact of the P3 law. El Salvadoran workers have a proud history of **fighting privatisation**. In 2002–2003 attempts to privatise health services were met with a nine-month strike and 200,000 public health workers taking to the streets, forcing the government to abandon the sell-off. In 2006, environmental and social movements mobilised massive public anger against the planned sale of regional water companies. Again, the government was forced to back down.

Faced with the reality of what privatisation and liberalisation has meant for poor El Salvadorans, opposition to the P3 law – led by the public sector unions – was massive. On May Day 2013 more than 80,000 workers, students, indigenous, feminist and social movement activists marched under the banner, *No More Privatisations, No to Public Private Partnerships with Thieves*. Mass protests also took place outside parliament on the day of the vote.

Despite the passage of the law, activists and unions have pledged to fight each proposed privatisation. As the grip of El Salvador's debt tightens, more struggles are guaranteed.

References – Case study two

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