Thanks to family remittances

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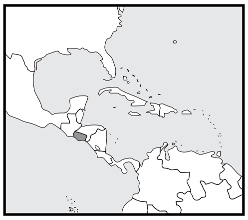

The national scene in El Salvador has been marked by low international coffee prices, dollarisation, drought, high electric energy and oil prices, the dismissal of thousands of government employees, corruption, impunity, increased poverty, two earthquakes, and deceleration of world economy. To a great extent, the population of El Salvador survived thanks to family remittances from abroad.

A hard year

The year 2001 has been a hard year. Poverty increased from 45.1% in 1999 to 51.2%,[1] as a result of economic policies and social and environmental deterioration caused by the two earthquakes that hit the country at the beginning of the year.

Exports fell by 2.2% mainly because of low international coffee prices,[2] while imports grew by 4.3%. The result was an increase of 14.5% in the foreign trade deficit (USD 1,818.3 million), far above projections at the beginning of the year, when an increase of 5% in exports was foreseen.

The industrial sector grew by only 3.5%, the lowest rate in the recent years, and growth took place in sectors linked to construction, plastics, drugs and other products that were in demand following the earthquakes. The "*maquiladoras*" grew 3.6%, far below the 12%-13% that had been projected. The agricultural and livestock sector faced losses in 2001 amounting to USD 508.32 million. Micro and small enterprise associations showed drops in sales of 20% to 50% for the majority of their members.

The Ministry of Finance reported tax revenues of USD 1,501.3 million in 2001. This is USD 77.9 million more than in 2000, representing an increase of 5.5%, but it is USD 61 million less than the goal set in the 2001 budget. Value Added Tax (VAT) continues to be the greatest source of income. VAT increased by 8.7% over 2000 and amounted to USD 848.8 million. For 2002, plans have been announced to fight income tax evasion, since only USD 452.8 million was collected in 2001, representing an increase of barely 1.1%.

At the end of 2001, the total domestic and foreign government debt was USD 4,588 million, representing 32.6% of GDP. The tax deficit was 3.7% of GDP and is expected to be reduced to 3.5% in 2002. According to the Salvadorian Foundation for Economic and Social Development (FUSADES), percentages considered to be sustainable were 1.8% for 2001 and 2.4% for 2002.

The Ministry of Finance reported an unemployment rate of 7% in 1999. In 2001, it confirmed an increase of 0.5%, resulting from the earthquakes, which caused the loss of 50,000 jobs, and the crisis in coffee plantations, which led to the loss of 10,000 jobs. The government hopes that the Free Trade Agreements (FTA) and the Caribbean Basin Initiative (CBI) will improve the economy in 2002 and generate 400,000 new jobs over the next three years. This expectation is unlikely to materialise, however. Uncertainty in the world market has affected demand for *maquila* products and given rise to massive dismissals at the beginning of 2002. The female work force will be affected as it represents 90% of the work force in this sector.

The Central Reserve Bank (BCR) and other official sources have stated that the economy will achieve a growth of barely 2% in 2002 (the same as in 2000), and that the goal set for 2003 is 3%. The government qualifies this result as satisfactory, considering the two earthquakes and deceleration of the world economy. This modest growth will be sustained by increased public investment for reconstruction, lower interest rates resulting from the Monetary Integration Law, and an increase in family remittances.

Independent economic analysts consider that recovery in 2002 is uncertain and that FTA will not bring economic revitalisation because of competition with more developed countries. They agree that the best measure would be public investment and believe that its success will depend on the efficiency and effectiveness of resource use.

The meagre economic growth of the last few years has not improved the welfare of most Salvadorians, because of continued concentration of wealth.

Exporting human resources and importing remittances

El Salvador exports human resources and imports family remittances. These continue to grow. The BCR foresees an income of USD 1,900 million in 2002 (representing an increase of 8.5% over 2001). Remittances cover 86% of the trade gap and are equivalent to 64% of exports and 37% of the country's total imports. It is expected that they will total 13.4% of GDP. Studies by the Inter-American Development Bank (IDB) state that remittances amount to nine times foreign aid and seven times foreign direct investment. There is no doubt that these remittances help to alleviate poverty and promote the economy, but it is not advisable for a country to depend on this type of resource. The challenge is to promote use of these remittances for medium- and long-term investments, and not only for consumption, but this idea has failed over the last ten years.[3]

USD 272 million is already circulating in the economy, equivalent to 51% of currency outside banks (USD 532 million). The government is pleased with the evolution of dollarisation, but the population believes the measure to be the government's greatest error.[4] The Supreme Court of Justice has rejected various initiatives to declare the law permitting dollarisation unconstitutional, but many people still consider it to be unconstitutional, because they reject the firm trend towards eliminating the *colon* as national currency.

1 United Nations Development Programme (UNDP). *Human Development Report 2001.* El Salvador, 2001.

2 Income from sales dropped to 60% of total income in 2000, when it was USD 300 million.

3 La Prensa Gráfica, 18 December 2001. p. 4b.

4 La Prensa Gráfica. *Revista Enfoques*. "Results of an Opinion Survey." 30 December 2001.

Corruption among millionaire civil servants and lack of transparency in some legal decisions continues.

Health and education

Although diseases such as poliomyelitis and measles have been eradicated, 12% of infants are malnourished and 80% of children suffer cruelty.[5] The threat of epidemics such as cholera and conjunctivitis, the lack of drugs, scant mental health and post-traumatic care still persist. Health care for women at the age of reproduction is deficient. Maternal mortality is relatively high (120 deaths per 100,000 live births). Although health sector officials deny it emphatically, there is concern that privatisation of services is at least partially responsible for these deficiencies.

Illiteracy dropped to 15% nationally (over 100,000 became literate per year), but 30% of the women in rural areas are still illiterate, confirming conditions of social and gender inequality. Pre-school coverage for four to six year-olds rose from 34% in 2000 to 42% in 2001, with equal percentages of boys and girls covered. Important government projects are being implemented with the participation of civil society organisations. The challenge is to recover the facilities damaged by the earthquakes and re-establish school enrolment, which dropped by 60,000 students in 2001 (4%), and to improve the quality of education.

Priority for reconstruction

In its third term, the administration of President Francisco Flores will focus on public investment for social services, poverty reduction and reconstruction. The National General Budget for 2002, called "Comprehensive Human Development", proposes as priorities for investment and public indebtedness education, health, drinking water and basic sewage, recovery of the highway infrastructure, support to agricultural and livestock production, rural development and increase in export capability. Other priorities are the struggle against delinquency and improved taxation.

The 2002 budget, approved on 19 December 2001, amounts to USD 2,504.1 million, 13% more than the 2001 budget of USD 2,216.2 million. The budget includes a 17% reduction in operating expenses. Sources of funding are taxes, credit, current savings and re-allocation of investment.

The budget has been criticised for increasing the level of indebtedness and using treasury bills (LETES) issued by the government to finance the deficit. The national economy has apparently lost its capacity to invest its own funds, since as of last year it no longer has any current savings. For this reason, the government has turned to foreign funding for social development initiatives, thus increasing the fiscal deficit.

Given its present structure and the limited resources at the disposal of the government, the budget is not an effective tool for poverty reduction, economic revitalisation or reconstruction of the country. The distribution of the USD 741 million allocated to public investment in 2002 gives priority to those departments most affected by the earthquakes, but not to those that have traditionally been poor.

The budget can be credited for increasing expenditures for health and education. Investments in health will represent 14.8% and in education 29.8% of the total budget. Moreover, these two ministries, plus the public security ministry, were the only ones exempted from the goal of reducing operating costs by 15%. According to the government, this strategy responds to the commitment to fight poverty and create opportunities for development.

According to the analysts, there is an imbalance between what is allocated to reconstruction and what is invested in the social area. Although the health budget was increased by 14.8% with regards to the previous year, this increase is for facilities and not for health care. Furthermore, 68.8% of the total health budget is for remuneration. Expenditure for basic health care is not reflected, and it is not clear how demands of a growing population will be satisfied, with an equal number of health technicians and a similar amount for drugs.

In the case of education, resources allocated to provide quality education are also limited. Attention is centred on achieving the level of coverage that prevailed before the earthquakes.

Following adoption of the 2002 National General Budget, floating debt re-conversion and loan package, the Ministry of Finance must place USD 1,520.4 million in bonds on international markets. USD 740.9 million of this will be used to finance the budget and USD 779.5 million for debt re-conversion. The government is optimistic, since the experience of issuing bonds in the two previous years has shown that the country is creditworthy.

In the context of global economic crisis, trade unions have expressed satisfaction with the budget, as it guarantees bids for state investment as from January, which will generate growth. Transferring the debt from short-term to long-term is a valid financing scheme, which will help distribute the tax burden and place less pressure on the government's cash flow. It should be noted that in 2002, the level of public investment will be higher than at any time in the history of the country, with significant allocations to human development, infrastructure, education and health.

Unjustified optimism on the part of the government

All the end of year government reports refer to the 2% economic growth, increase in remittances and dollarisation as successes. They are visibly optimistic about the coming year, when a growth rate of 3% is expected, along with generation of thousands of jobs through the FTA and CBI. But the majority of economic analysts does not share this optimism. Nor does the population who see risk in the trend towards indebtedness, corruption, the loss of international reserves, global economic recession, lack of competitiveness of national companies, and increased unemployment and poverty. The government cannot hide reality. It is necessary and urgent for it to listen to calls asking it to assess the economic situation more objectively. A more feasible alternative would be a policy mandating development of an economic and social path in which economic growth benefits the whole population and not just a few people. This policy would establish a process through which the different sectors give their opinions and propose progressive measures for national revitalisation. ■

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Association of Women for Dignity and Life (LAS DIGNAS)
Maquilishuati Association (FUMA)
Intersectorial Association for Economic Development and Social Progress (CIDEP)
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5 United Nations Children's Fund (UNICEF). *Estado Mundial de la Infancia 2002*. El Salvador. 2001.