**El Salvador:**

Background Report

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Table of Contents

[Introduction 3](#_Toc290041434)

[Theories 4](#_Toc290041435)

[Modernization Theory 4](#_Toc290041436)

[Dependency Theory 6](#_Toc290041437)

[Orthodox School 8](#_Toc290041438)

[State Planning School 9](#_Toc290041439)

[Urban Bias Theory 10](#_Toc290041440)

[Geographic Theories and Natural Disasters 13](#_Toc290041441)

[Definition of Development 16](#_Toc290041442)

[El Salvador’s Current State of Development 17](#_Toc290041443)

[Economy 17](#_Toc290041444)

[GDP Growth 18](#_Toc290041445)

[One-Gap Analysis 20](#_Toc290041446)

[Two-Gap Analysis 23](#_Toc290041447)

[Three-Gap Analysis 28](#_Toc290041448)

[Inequality Level 32](#_Toc290041449)

[GINI Coefficient 33](#_Toc290041450)

[Income Distribution 34](#_Toc290041452)

[Political Development 35](#_Toc290041453)

[Health 40](#_Toc290041454)

[Life Expectancy 40](#_Toc290041455)

[Infant Mortality 41](#_Toc290041456)

[Improved Sanitation Facilities 43](#_Toc290041457)

[Malnutrition 45](#_Toc290041458)

[Education 47](#_Toc290041459)

[Literacy Rate 49](#_Toc290041460)

[School Enrollment, Primary and Secondary (Gross and Net rate) 50](#_Toc290041461)

[Primary School Completion Rate 51](#_Toc290041462)

[Access to Information 52](#_Toc290041463)

[Crime 54](#_Toc290041464)

[Homicide 55](#_Toc290041465)

[Gangs 57](#_Toc290041466)

[Conclusion and Development Proposals 59](#_Toc290041467)

[Bibliography 60](#_Toc290041468)

# Introduction

Imagine driving around in your car, feeling the wind in your hair and enjoying the wonderful warm weather that the country of El Salvador has to offer. Now imagine stopping at a street light and feeling your heart burst out of your chest as an icy gun is thrust into the side of your head and you are ordered to hand over your wallet, your cell phone and maybe even your keys. This story is a common one in El Salvador, where fear of assault has become the norm. Every day is a struggle for the country’s citizens, whether it is fear of a violent attack, the difficulty of saving enough money to put food on the table, or fighting with an unresponsive government.

El Salvador is technically classified as a lower middle income country; however, upon closer inspection, the situation is even more dismal. El Salvador is rife with inequality, crime, economic issues and corruption. This tiny country at the heart of Central America has a gorgeous landscape to offer anyone who dares to visit; but this, along with its potential for development, is tainted by the many troublesfound in the country today.

The goal of this paper is to thoroughly understand the development situation of El Salvador and the causes of its problems. In order to achieve that, we must first define development. To do this, we will look at several relevant development theories. We will then develop our own definition of development and apply it to the country of El Salvador in order to identify the major areas where work is needed.

Our research will show that the biggest problems we found to be detrimental to El Salvador’s development are the lack of savings, inequality, government corruption, and high crime rates. After conducting our research, we have come up with a few proposals for development projects that could be implemented in El Salvador. We will briefly explain these ideas in the final section of our paper.

# Theories

By looking at prominent development theories, we are able to get an idea of what it means for a country to be developed and why countries develop at different rates. While none of these theories fits perfectly with El Salvador, they each can teach important lessons about development. After examining each of these theories and how they would be applied in El Salvador, we were able to take pieces of each and put them together to create our own definition of development.

## Modernization Theory

Modernization Theory is a general body of thought that holds that all states are on a linear path towards the Western vision of development. On this course states go through similar changes and ultimately arrive at a system of democracy, free markets, and other related characteristics of the US and Western Europe.

There are four main tenants of Modernization Theory. The first tenet is that poverty is a primordial state, which means it has always existed. The second is that modernization is unequivocally good. As states become more developed, everyone will benefit. The third is that the West is a model of the universal, linear process towards “development.” According to Chenery, development stages include industrialization, technology change, capital accumulation, and increased openness to the global system, global trade and capital flows. Chenery proposes that states move along similar paths because “industrialization occurs with a sufficient degree of uniformity across countries to produce consistent patterns of change in resource allocation, factor use and related phenomena.”[[1]](#footnote-1) The Modernists envision development as including effective democracy, free markets, “modern” civilians, secular institutions, much like Europe and the US and Canada are today. Finally, the West can be and is a help to developing countries. This theory believes that states can grow together, that power is not necessarily absolute but relative.

Part of this theory includes Inkles’ ‘Theory of Modern Man’, which says that there are certain characteristics that make men modern, and in turn push a country towards greater development. Some of the more influential characteristics of the modern man include ambition for oneself and one’s family, the drive to participate in public elections and punctuality. Lipset adds that there must be cultural and social changes in order for states to develop. For both Lipset and Inkles, these changes in characteristics indicate progress and also push states towards development.

The Theory of Modernization expects El Salvador to continue down a path similar to that of the Western states until it becomes fully developed, or, like the West. Some of these stages may have already played out. Long gone are the days of native Indian tribes and feudalism of Spanish lords. El Salvador now has large cities, it is a presidential republic, it is in the process of industrialization, and is steadily improving in areas such as health and education. Inkles idea of the ‘modern man’ applies in that the region has changed since its conquest by the Spaniards. Since then, the natives have been influenced by Western values and in turn become more “modern.” However, Inkles would say that the citizens of El Salvador are still not completely modernized. If these men were truly modernized, they wouldn’t put up with the corruptness of the government. They would also be sure to improve infrastructure so business transactions could happen efficiently and effectively. Until these and some other changes are seen in the personalities of Salvadoran citizens, the country will remain undeveloped.

Although modernization has some good ideas about El Salvador’s development, there are also problems. Some aspects and areas of the country are developed and “westernized”, while others remain isolated and in poverty. It seems clear that El Salvador is not following a standardized trajectory towards development. The country has clearly been impacted by globalization and ideas of the West, yet there are still some areas that have not progressed.

## Dependency Theory

Dependency Theory argues that poverty is not a primordial state, but instead is the result of a nation’s dependence on the international system. The theory demonstrates the unbalanced relationship between the Global South and Global North, stating that those in the South depend on those in the North. Events such as colonialism greatly affected the development potential of states. As Andre Gunder believes, “Some connections to the international system, especially colonialism, have caused states to be underdeveloped as opposed to undeveloped.” This means some states have actually regressed rather than progressed. Colonialism is not the only issue related to dependency. Other linkages to the international system such as connections to institutions like the International Monetary Fund, and heavy trade relations with other countries have affected the growth of less wealthy states in sometimes negative ways. Essentially, Dependency Theory argues that poorer states become much more reliant on what the North does than what actually goes on within their countries. In terms of El Salvador, because of its past of colonialism and current connections to institutions like the Millennium Challenge Corporation, the IMF and to countries like the US, its fate will depend much more on what happens in the international arena than what it does itself.

The presence of the Spaniards in Central American and colonialism no doubt greatly affected the system in El Salvador. They came searching for gold, but instead found they could exploit El Salvador for its soil. “El Salvador thus was relegated to the status of a backwater of the Spanish Empire. In this state of neglect and isolation, the seeds of the country's politico-economic structure were planted”.[[2]](#footnote-2) Whatever system existed pre-Spanish invasion was gone, and in its place the Spanish lords implemented a fiefdom system. Spanish presence brought changes to religion, culture, the economy and the overall structure, which greatly affected El Salvador’s development.

During the last couple decades, El Salvador has integrated itself even further into the global system. Recently, the UN enlisted El Salvador for the UN Millennium Goals, tying it closer to the international system and re-structuring El Salvador’s development goals. Then, “in late 2006, the government and the Millennium Challenge Corporation (MCC) signed a five-year, $461 million compact to stimulate economic growth and reduce poverty in the country's northern region”.[[3]](#footnote-3) While this acts as a grant, El Salvador is required to use the funds as the MCC sees fit. In addition to all of this, in 2001 El Salvador turned to dollarization, losing control of its monetary policy and so having only fiscal policy to rely on during down turns in the cyclical cycle. El Salvador is now heavily dependent on the US. While not all of these connections are inherently problematic, a Development Theorist would point to the basic outside reliance and policies not tailored specifically to El Salvador as barriers to development.

Dependency Theory has a lot to say about El Salvador’s development level and potential, first pointing to the history of colonialism and then the present reliance on the international system. In order to speed up development, they would advocate for El Salvador to become more self-sufficient and independent. Dependency Theorists advocate that El Salvador will continue to have problems unless they become more self reliant.

## Orthodox School

The Orthodox School has its background in liberal economics and promotes a laissez-faire approach to the economy. Therefore, the main concerns of this school are economic indicators and growth numbers. Although we acknowledge that the economic aspect cannot be ignored, our definition of development concludes it is not the only important factor in assessing a country. Not only does the Orthodox School place a heavy emphasis on economic growth, many of its specific characteristics cannot be applied to El Salvador. The Orthodox school suggests rapid growth of inputs for increased development [[4]](#footnote-4), however El Salvador’s economy is export oriented.

The Orthodox School also highlights the importance of “growth in inputs like labor and capital rather than by gains in efficiency”[[5]](#footnote-5). These three areas present a challenge for El Salvador due to the fact that crime and corruption have diminished El Salvador’s supply of labor, and have been severely detrimental to its capital. This in turn causes efficiency to become stagnant.

Furthermore, an important idea that this school states is to prioritize future gain over current satisfaction. This is one problem that is evidently hindering development throughout rural El Salvador. A large portion of the rural population does not have a “margin of income above survival that can be invested for the future”[[6]](#footnote-6), which is a necessary prerequisite to future planning. Additionally, many people do not understand the significance of delaying instant satisfaction for future benefits, thus closing opportunities for themselves without even realizing it. For example, many do not comprehend the importance of education, especially higher-level education, because they believe they will never put it to use. Whether it is lack of financial management education, or lack of aspirations for the future because they are part of a gang, or lack of enough income to save, the Orthodox School would blame this lack of capital for El Salvador’s undeveloped state.

## State Planning School

The state planning school gives a large role to the government in development. This role is mainly to monitor the market and intervene where necessary. These theorists believe that some governance of markets is necessary in order for the economy to operate in the most effective way. Wilbur and Jameson give several examples of how the state can supplement the market. It can convince its citizens of the need for “modernization”, it can use its own entrepreneurial ability and knowledge to fill the vacuum that may exist in that area, and it can offset negative effects of the market through economic planning.[[7]](#footnote-7) The state may also be able to make the distribution of income more equitable than would otherwise exist as a result of the market. This increased equality is positive for development, as it means that the entire society would be receiving benefits from economic growth. State planning theorists would want the El Salvadoran government to take a larger role in monitoring the economy. As of now, El Salvador has been practicing liberal economic ideas. They have opened their markets and tried to foster an environment of trade and investment. State planning theorists would blame this freedom of markets for El Salvador’s undeveloped state.

While this theory has valid ideas, it is difficult to apply it to El Salvador. As mentioned previously, the government is extremely corrupt and inefficient. It has very limited ability in providing people with basic services. Those services that are provided are usually corrupt and not trusted. For example, crimes go unreported as Salvadoran citizens do not trust the police force to execute justice. Due to the widespread corruption of the government, it is unlikely that the government will or should take a larger role in El Salvador. Any attempts to do this would surely be contested by a population who is disgusted with their political leaders. Furthermore, a constant theme through our paper has been El Salvador’s dependence on the United States. The benefits from this dependence come conditionally with the open trade environment that El Salvador provides in return. If the state were to take more control of markets, the United States would not be pleased and it is possible that reciprocal negative actions would be taken.

Therefore, at this time in El Salvador, the state planning theory of development is not applicable. It is not practical to think that the corrupt government of El Salvador should be extended. However, this theory does show us that this political corruption is a problem for development. While the solution for now is not to increase the state, the trustworthiness and effectiveness of the government must be addressed in our development theory.

## Urban Bias Theory

The theory of urban bias was principally developed by Michael Lipton, who states that the biggest cleavage in the societies of poor countries is between urban and rural populations. Urban bias in resource allocation causes all resources to be devoted to urban areas and projects, while rural areas and agriculture tend to have a much higher return on investment. There are several reasons for this bias. Urban populations are better articulated, organized, and therefore are better able to mobilize and gain political power. Also, there are more people concentrated in urban areas, so investment to these areas may be able to impact a larger number of people. However, although these reasons seem rational, the urban bias solely reflects preference, not equity nor efficiency.[[8]](#footnote-8) There are many low-cost sources of potential advancement in rural sectors. Lipton believes that “a developed mass agriculture is normally needed before you can have widespread successful development in other sectors”.[[9]](#footnote-9)

This theory can give a lot of insight into the situation in El Salvador. 39% of the population lives in rural areas, while the other 61% lives in urban areas.[[10]](#footnote-10) The figure below shows that agriculture only makes up a small percentage of the GDP, especially when compared to the percentage of the workforce employed in that sector. The percentage of GDP made up by services and industry seem to accurately reflect the percentage of the workforce employed in each area. However, employment in agriculture is 18.9% of the workforce, which is close to double the value added to GDP by agriculture (11%).

Figure 33: Agriculture, Services, and Industry: Value Added to GDP vs. % Employment[[11]](#footnote-11)

Lipton would see this discrepancy as a major problem in El Salvador. We found large urban/rural divides in almost all areas of our research, as previously mentioned. There is a discrepancy between access to education, healthcare, clean water, infrastructure, and most other main components of our definition of development. According to theories of urban bias, this widespread discrepancy is a major explanation of El Salvador’s undeveloped state. Lipton would suggest increased investment in agriculture and other rural projects. He would advise this as a course of action that will both increase growth and lower inequality. Microfinance loans to rural farmers could be one way to achieve this. In order to enhance development according to urban bias theorists, investment in agriculture must be expanded. Not only will this improve the lives of the large rural population, it will also eventually trigger more successful development of all other industries.

## Geographic Theories and Natural Disasters

El Salvador’s geographical location has heavily influenced its state of development and continues to shape and modify its current situation. The theory that geography has an impact on how developed a country is has been investigated briefly by several academics. One thinker, Jeffrey Sachs, addresses this hypothesis. He acknowledges that Americans often “forget that they inherited a vast continent rich in natural resources”[[12]](#footnote-12). He mentions that complications such as transport costs and chronic diseases can arise from unfortunate geographical conditions, and that some countries are “vulnerable to extreme external shocks- natural and economic; earthquakes, droughts, floods and landslides”[[13]](#footnote-13) however he states that these problems are not fatal and can be fixed.

While in some countries, this might be true, in others like El Salvador, geography plays a much bigger role. More importantly, Sachs fails to recognize that any progress a country makes in development can be eradicated in a matter of seconds due to a natural disaster. El Salvador, nicknamed “the valley of the hammocks”, because of its susceptibility to earthquakes, has suffered many relapses in its progress because of geographic circumstances.

Hurricane Mitch in 1998 is one example of how a natural disaster can severely damage a country’s development potential. This hurricane was responsible for 388 millions of dollars in damages, of which 62% were loss of production.[[14]](#footnote-14) It damaged 10,372 houses, which roughly comes to about 13,000,000 dollars. Another 11.6 million dollars were estimated as loss in the health sector, with 12 million dollars in damages in the education sector. 118 schools just needed a few repairs, while 179 needed to be partially reconstructed and 30 schools had to be completely rebuilt. The infrastructure was also damaged; El Salvador had to spend around 22.06 million dollars on road repairs. 100,000 hectares were damages, while the production of coffee lost 3,700 tons because of this hurricane, which comes to about 9 million dollars. Losses in the production of sugar were about 16 millions dollars which meant that there was a 10 million dollar reduction in exports. In total, the industrial sector suffered about 73 million dollars in damages.[[15]](#footnote-15) Clearly, a natural disaster not only impacts one sector of a country, but significantly afflicts all aspects of a country, thus impeding development.

Earthquakes are able to cause just as much damage to a country as a hurricane. In the year 2001, El Salvador was victim to not just one, but two earthquakes that shook the country to its core within a time span of one month exactly. On Saturday January 13, 2001 an earthquake of 7.6 magnitude on the Richer Scale hit El Salvador midmorning. This earthquake was so powerful that it produced a massive landslide in Las Colinas, causing it to tumble down, ending many lives in its path. 60% of the deaths suffered from this earthquake were because of the landslide. Around 130,000 houses suffered damages; of which 93,000 were almost completely ruined and about 700 of these were buried in the landslide.[[16]](#footnote-16)



**2001 Landslide in El Salvador. Las Colinas.**

This earthquake also cost about 398 million dollars in damages to infrastructure, not to mention the extreme loss of land in the landslide. In total, this earthquake cost El Salvador about 1,255 million dollars. Just when the people of El Salvador were slowly beginning to recover from this devastating incident, the horrific event repeated itself. On the Tuesday morning of February 13, 2001, one month exactly after the first one, El Salvador once again suffered an earthquake of a 6.6 magnitude on the Richer Scale. This earthquake caused a total of about 348.5 millions of dollars in damages. When broken down, this earthquake had a negative impact on 9.5% of exports; 6.3% of imports and 8.3% of brutal capital. With both earthquakes combined, the total damages reached up to 43.5% of exports, 29.3% of imports and 42.3% of brutal capital.[[17]](#footnote-17) 41,000 homes were destroyed with this second earthquake, and 16,000 suffered damages, so about 11% of the population lost their home. 7 hospitals were affected along with 3 million health units, which meant that there was about 25% decrease in capacity for health services. Consequences aren’t only physical, but psychological too. Enduring two catastrophes in such a short time led to around 8,000 consults for depression.[[18]](#footnote-18)

These are just three examples of how a country might be working towards development and then lose it all in seconds, 22 seconds to be exact in the case of the first earthquake in 2001. Those 22 seconds caused inconceivable damages that the country is still recovering from. Therefore, we believe the geography theory is vital in considering the development situation in El Salvador. There are measures the country could take so that El Salvador could have a more prominent response to natural disasters, such as adjusting buildings and structures to improve their tolerance with tremors. There is a lack of knowledge in this area, however, which is why when considering the state of underdevelopment in El Salvador, its proneness to natural disasters is often neglected.

## Definition of Development

While development can mean many different things, we believe it should be synonymous with quality of life. A good quality of life means not only having your basic needs met, but being able to live life free from worry of disease, hunger, crime and corruption. We state these elements specifically for they are extremely harmful to all human beings, and to their quality of life. A good quality of life means having the opportunity to live independently, meaning freedom from dependency on outside forces. As Nobel Prize winner Amartya Sen states, “People have to be seen…as being actively involved – given the opportunity- in shaping their own destiny, and not just as passive recipients of the fruits of cunning development programs”.[[19]](#footnote-19) Therefore, the feeling of being independent and capable of directing your own future is a necessary component of development. Education is the doorway to numerous opportunities as well as essential to making a living, so education is also a component of our definition of a good quality of life. Finally, development includes the opportunity for citizens to improve their lives. It is true that in the past, economics and GDP have played a significant role in evaluating a country’s development, but we think this is misleading. Economic success is veryimportant but the social aspects of a country are also crucial in determining its state; as “with adequate social opportunities, individuals can effectively shape their own destiny and help each other”.[[20]](#footnote-20)

For us, development is the combination of several measures that we see as enlightening and important factors for evaluating the quality of life.These measures fall into general categories of economic growth, inequality, political development, health, education, and crime.Previously, we used various indicators to measure El Salvador’s development level in each of these categories. By evaluating the country’s progress in each of these ways, we were able to see a bigger picture about the quality of life in El Salvador. In this paper, we look more specifically at the economic and political development of El Salvador. Against this background, we examine how current resources are being used to improve the health, education, and crime rates of the country. By analyzing these areas, we are able to see what is holding El Salvador back from reaching its full development potential, and why.

# El Salvador’s Current State of Development

## Economy

While we have argued that development is not purely an economic measure, the economic health of a country is still an important aspect. It is critical to evaluate the economic progress of a country in order to see what resources are available to allocate to other crucial human development goals. By looking at El Salvador’s economy and analyzing its one-, two-, and three- gap, we are able to see how the country has been progressing economically over time, and what still needs to be done.

El Salvador has the third largest economy in the Central American region, behind Guatemala and Costa Rica, measured by GDP.[[21]](#footnote-21)According to the World Bank, it is considered a lower middle income country. In terms of GDP per capita, El Salvador’s economy looks even stronger. In 2009 the GDP per capita was $3,424, which is slightly higher than the average GDP per capita of lower middle income countries. In fact, as you can see in Figure 1, this was also higher than Guatemala and Honduras’s GDP per capita.

|  |  |  |
| --- | --- | --- |
|  | GDP in USD (2009) | GDP per capita in USD (2009) |
| Chile | $163,669,060,914 | $9,644 |
| El Salvador | $21,100,500,000 | $3,424 |
| Honduras | $14,317,854,032 | $1,918 |
| Guatemala | $37,321,878,154 | $2,661 |
| Lower Middle Income Countries (Average) | $8,812,199,032,923 | $2,312 |

Figure 1: GDP and GDP per Capita in 2009, U.S. Dollars[[22]](#footnote-22)

### GDP Growth

Due to successful trade agreements made with the United States and with countries within the region, El Salvador’s GDP was growing steadily, up until the world financial crisis of 2007. As seen in Figure 3, El Salvador is actually lagging behind the countries of its region in GDP growth. GDP grew from $17,070,200,000 in 2005 to $21,100,500,000 in 2009.[[23]](#footnote-23) The reason for this will be looked at more closely in our gap analyses sections.

Figure 2: GDP Annual Growth, U.S. Dollars[[24]](#footnote-24)

El Salvador’s economy suffered greatly as a result of the global recession, which can be seen by the negative 3.5% growth rate achieved in the year 2009.This economic contraction, was much larger than all the countries used for comparison. In fact, globally, lower middle income countries on average experienced GDP growth in this period.[[25]](#footnote-25)This discrepancy can most likely be explained by El Salvador’s close relationship with the United States. As the economy is heavily reliant on the U.S., it was impacted more significantly by the U.S.’s economic problems. The significance of this relationship is exemplified by dollarization, which occurred in 2001 and through which El Salvador lost control of its monetary policy. This also means any counter-cyclical actions must be done through fiscal policy, which requires a two-thirds majority legislative approval.

### One-Gap Analysis

The one-gap analysis shows the difference between a country’s desired investment and their available domestic savings. In other words, this analysis will show if El Salvador has been saving enough to reach a desired growth rate, or if they require outside investment from abroad. This analysis can be done using the Harrod-Domar Equation. The equation shows that GDP growth = (1/k) x I, where k= the capital output ratio, and I= gross investment.

To find the one-gap of El Salvador, we used averages from data compiled from the years 1999-2009. This data is found in the chart below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **GDP Growth (annual %)** | **Gross Fixed Capital Formation (% of GDP)** | **K ( GFCF/GDP Growth)** | **Gross Domestic Savings (% of GDP)** |
| **El Salvador** | **2.23%** | **15.82%** | **7.09** | **-1.27%** |

Figure 3: Harrod-Domar Equation Variables, 1999-2009[[26]](#footnote-26)

As shown, the capital output ratio for El Salvador was found to be 7.09. This is higher than the global average of 5, which means output requires more capital, therefore it may be that capital stock that is holding El Salvador back from higher growth.

After evaluating GDP growth over the past years, we chose 3% GDP growth to be a realistic target for El Salvador. To reach this growth, El Salvador would need 21.28% investment. This high percentage, combined with the high “k” value, shows that investment in El Salvador is not very productive. A lot of investment is needed to create small gains. Due to the fact that investment is unproductive and that El Salvador’s gross domestic savings is actually negative, the country has an extremely large one-gap. This analysis shows that while El Salvador has already been funding all of its investments externally, there is still need for more outside funding.

As El Salvador’s gross domestic savings rate was so low, we thought it would be helpful to compare it with savings rates of countries of the region and of Chile as a model. The figure below shows that El Salvador’s savings rate is lagging far behind not only Chile, but also all the Central American countries. Therefore, this low rate is not normal and represents a problem for the country.

Figure 4: Average Gross Domestic Savings Rates, 1999-2009[[27]](#footnote-27)

One possible explanation for the low savings rate may be due to the history of civil war within the country, “Common in post war countries is a lack of saving culture - when people have seen everything they've worked for destroyed through war, sometimes repeatedly, it becomes easier to use resources for short term, or immediate gratification that brings status rather than planning for long term security.”[[28]](#footnote-28)The history of El Salvador will be described in greater depth later on in the paper, but it is certain that the country has seen several disasters that may have impacted saving culture.

The next graph shows the relationship between average investment level and GDP growth for El Salvador, Honduras, Guatemala, and Chile. All of these countries have higher average investment levels than El Salvador and also higher average GDP growth. This highlights another crucial economic problem.

Figure 5: Relationship between average investment rates and average GDP growth, 1999-2009[[29]](#footnote-29)

This analysis has shown that El Salvador has an extremely large one-gap. In comparison to other countries of its region, it is lagging behind in both investment and savings rates. To reach our target growth rate, El Salvador will need to increase their domestic savings rate. Right now all investment is being funded by external finance, probably coming mainly from a combination of foreign aid and workers’ remittances. While investment needs to be increased, El Salvador is already dangerously dependent on outside sources, mainly the United States. Many experts on development, such as Dudley Seers, have warned that economic dependence is a deterrent to development. He states that “independence is not merely one of the aims of development; it is also one of the means.”[[30]](#footnote-30)The government cannot afford to risk increasing this dependence; therefore domestic savings should be used to close the one-gap. The reason for this very low savings rate needs to be investigated so that the problem can be corrected. This is a crucial area that the government must improve upon.

Furthermore, it would be useful for El Salvador to try and improve the productivity of their investments. As Paul Krugman has stated, “sustainable growth requires a combination of increased investment and increased efficiency.”[[31]](#footnote-31) Until El Salvador can make its investments more productive, there will not be a sustainable increase in GDP growth.

### Two-Gap Analysis

The two-gap analysis is a measure that examines the gap between necessary foreign exchange and existing foreign exchange. By analyzing capital flows going in and out of El Salvador, we can get a better idea of the country’s economic situation and whether or not it is dependent on outside factors. In order to find the two-gap, we will look at the balance of trade, assets, and liabilities of El Salvador. For most two-gap analyses, an evaluation of the currency exchange rate is necessary. However, as El Salvador adopted the U.S. dollar in 2001, this measure is not needed.

El Salvador has maintained a pretty constant trade deficit over the past 5 years. In 2009, exports made up 22% of GDP, where imports made up 38% of GDP. There was a trade deficit of about 3.27 billion dollars that year. This is pretty high, and is probably not sustainable for the future. El Salvador exports mainly coffee, sugar, textiles and apparel, gold, ethanol, chemicals, electricity, iron and steel manufactures.[[32]](#footnote-32) 43.8% of its exports go to the United States. Imports include raw materials, consumer goods, capital goods, fuels, foodstuffs, petroleum, and electricity. 30% of imports come from the United States, followed by 10% from Mexico.[[33]](#footnote-33) Looking at El Salvador’s trade, one thing that stands out is that they both import and export electricity. This could be an area that could be improved upon in order to decrease the trade deficit. If instead of exporting electricity, El Salvador used it for its own citizens, they could save money on the imports. Also, if El Salvador could work to develop more industry that could manufacture consumer goods, this could be another way to cut down on imports and decrease the deficit.

El Salvador also maintains an extremely high level of external debt. In 2009, total debt was about $10.2 billion, which is 49% of GNI. This is a very large liability. In 2009 El Salvador spent about $1.2 billion servicing this debt, which is a decent amount of money that could be spent more productively within the country. While El Salvador’s debt is smaller than both Chile and Guatemala’s in actual dollar amount, this is deceiving. The table below illustrates that El Salvador’s debt makes up a greater percentage of GNI than any of the other comparative countries.

|  |  |  |
| --- | --- | --- |
|  | **Present Value of External Debt (in USD)** | **Present Value of External Debt (in % of GDP)** |
| **El Salvador** | 10,197,806,760 | 49% |
| **Chile** | 65,749,158,520 | 43% |
| **Guatemala** | 12,012,924,010 | 33% |
| **Honduras** | 1,775,263,519 | 13% |

Figure 6: Present Value of External Debt, 2009[[34]](#footnote-34)

In 2006, El Salvador signed an agreement for foreign aid with the Millennium Challenge Corporation. This was a 5year“compact” agreement for a $461 million grant to stimulate economic growth and reduce poverty.[[35]](#footnote-35) The net official development assistance and official aid received by El Salvador was $233,350,000 in 2008. Another major capital inflow that is considered an asset to El Salvador is workers’ remittances from abroad. About 17% of their GDP comes from remittances sent from family and friends living outside the country, mainly in the U.S.[[36]](#footnote-36)CIA World Factbook estimates that one-third of El Salvadoran families receive these remittances.[[37]](#footnote-37) While high levels of remittances can be characteristic of Central American countries, these numbers are still high for the region, and extremely high when compared to a more developed country like Chile.

|  |  |  |
| --- | --- | --- |
|  | **Workers’ Remittances and Compensation of Workers, Received (USD)[[38]](#footnote-38), 2009** | **Percent of GDP** |
| **El Salvador** | $3,482,401,000 | 17% |
| **Guatemala** | $4,026,200,000 | 11% |
| **Honduras** | $2,520,245,000 | 18% |
| **Chile** | $4,400,000 | 0% |

Figure 7: Workers' remittances and Compensation of Workers Received, 2009[[39]](#footnote-39)

While this inflow of remittances is very helpful and does not incur any direct financial liabilities, we believe that it is dangerous for El Salvador to be so reliant on income coming from workers abroad. If anything were to happen to limit the migration of El Salvadoran citizens, the country could suffer a major loss. We feel that being so dependent on an outside source of income is a detriment to development and is holding El Salvador back from reaching its development potential.Later on in this paper we will discuss some of the reasons for why being so dependent on an outside source can be harmful.

Foreign direct investment in El Salvador spiked after the 2006 signing of the CAFTA-DR trade agreement. This agreement gave El Salvador preferential treatment in the United States’ market, and in return El Salvador fostered an open trade and investment environment.[[40]](#footnote-40) The U.S. has supported the privatization of electrical and telecommunications markets. This has been a source of much of El Salvador’s foreign direct investment.[[41]](#footnote-41) In 2007, El Salvador saw $1,508,340,000 in foreign direct investment. Since then, this number has lowered and in 2009, FDI only accounted for 2% of El Salvador’s GDP. The chart below shows that this amount of FDI is in line with the rest of the region, however Chile maintains a much higher percentage.

Figure 8: FDI as % of GDP[[42]](#footnote-42)

Although foreign direct investment results in eventual capital outflows, it is still very helpful. El Salvador should look to Chile’s example and try to expand their foreign direct investment. This is one area where El Salvador’s close relationship with the United States can be helpful. FDI from the United States is already present in the country, so there is always opportunity for expansion. However, one issue that may be holding investors back is El Salvador’s corrupt government. Until investors feel confident that the government is secure and trustworthy, they may not want to commit large amounts of FDI. This could be a potential roadblock holding El Salvador back from reaching higher levels of growth and development.

El Salvador’s Net International Investment Position (IIP) as reported by the IMF is -9.286 billion dollars. The Net International Investment Position is a measure used by the IMF that equals a country’s stock of external assets minus its stock of external liabilities.[[43]](#footnote-43)This equals about 45% of El Salvador’s total GDP. While this is a large deficit, El Salvador’s two-gap is in decent shape. Although El Salvador maintains a large trade deficit and a large amount of debt, this is offset by the large capital inflows coming from foreign aid and workers’ remittances. While the two-gap is balanced by these inflows, it does show how dependent El Salvador is on other countries, specifically the United States. We believe that while this dependency is necessary for now, in the long term El Salvador needs to work on becoming more independent. Some ways to do this would be to increase foreign direct investment and to work towards closing the trade deficit. While El Salvador is in a pretty good place for now, this level of dependency is keeping the country from being independent, which is considered a critical aspect of, and precursor to, development.

### Three-Gap Analysis

The Three Gap is the difference between required government expenditures and available government revenues. In 2011, the IMF estimated El Salvador’s government expenditures to total $5.044 billion, and revenues to total $4.027 billion.[[44]](#footnote-44)

**Figure 9: Government Revenues and Expenditures (in billions, dollars)[[45]](#footnote-45)**

El Salvador has increased their spending as well as their revenues, so the deficit has stayed relatively constant as a gap. In 2011, government revenues were 17.546% of GDP, and expenditures were 21.708% of GDP. As shown in Figure 10, between the years 2008 to 2011, there has been a 4.31% deficit between revenues and expenditures. The good part is that the deficit gap has not widened, and in fact decreased slightly, but there is still a problem.

Figure 10 General Government Revenues and Expenditures (% of GDP)[[46]](#footnote-46)

El Salvador is making many attempts to alleviate their budget deficit. One recent action was the ratification of the Dominican Republic-Central American Free Trade Agreement (CAFTA-DR), which El Salvador was the first to sign in 2006. This trade agreement bolstered the exports of many goods, such as processed foods, sugar and ethanol, and supported investment in the apparel sector, which was soon to face Asian competition with the expiration of the Multi-Fiber Agreement in 2005. The administration also sought to diversify the economy, by promoting El Salvador as a regional distribution and logistics hub, as well as promoting tourism investment with tax incentives.[[47]](#footnote-47)

In addition, as mentioned previously, El Salvador is promoting an environment of open trade and investment and using the Millennium Challenge grant to stimulate economic growth and reduce poverty, specifically in the civil-war stricken north of the country.[[48]](#footnote-48)

El Salvador’s revenue is made up mostly of taxes on goods and services, then taxes on income, profits and capital gains. Grants and interests payments make up the rest of revenues. Although El Salvador’s government is highly suspect of corruption, there is very little way to quantify it in terms of revenue.

Figure 1: El Salvador's Revenue (2008)[[49]](#footnote-49)

El Salvador’s expenditures are mostly spent on education, then health. Relative to the other sections, very little of the budget goes to military expenditures. In general, these percentages are similar to other countries of the region, like Chile, Guatemala and Honduras, with only small percentage differences (2-3%) in most categories; however, Chile has a much larger percentage spent on the military (17.9%), and El Salvador has the lowest spending rate out of all the countries listed.

Figure 1: El Salvador's Expenditures (2008)[[50]](#footnote-50)

El Salvador has a large amount of government debt, but it has slowly been decreasing over the years. In 2005, El Salvador’s debt was 48.4% of GDP, but since then it has steadily decreased to 39.4% in 2009. With the help of CAFTA and other improvements economically, it is likely that the government debt will continue to decrease.

Figure 13: El Salvador’s Central Government Debt (% of GDP)[[51]](#footnote-51)

The three gap issue is less worrisome than other aspects in El Salvador. While central government debt is high, it is decreasing. The budget deficit for the general government remains stable, but there is still much improvement to be made. The allocation of revenues seems appropriate for a country looking to improve in development: less of the budget is spent on military and more is spent on improvements in health and education. To improve the three gap, the El Salvadoran government must focus their economic policies on lessening the deficit and thus improving their development potential.

## Inequality Level

The inequality level of a country is a crucial part of its development. No matter how high a country’s GDP or human development index is, it is insignificant if only half of the population is receiving these benefits. We used three different measures to capture this inequality. First, the GINI coefficient measures “the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution”.[[52]](#footnote-52)As the GINI coefficient reaches zero, it signifies perfect equality, whereas when it approaches 100, it signifies total inequality. While this is a general measure of inequality in a country, we decided to supplement it by measuring the income share held by the highest 10% of the population and the income share held by the lowest 10% of the population.

### GINI Coefficient

## El Salvador has historically been a highly unequal society. As a main producer of coffee, the coffee elite typically held all of the society’s wealth. In fact, in the 1930’s 90% of the country’s wealth was held by .5% of the population.[[53]](#footnote-53) While this inequality has lessened over the years, it still remains a large reality in El Salvador. In 2007, El Salvador had a GINI coefficient of 47.As seen in the table below, El Salvador’s GINI coefficient has been fluctuating around this level for the past ten years. This is considered a very high level of inequality; in fact CIA World Factbook ranked El Salvador as 19th most unequal out of 134 countries, rated by GINI coefficients.[[54]](#footnote-54) This level of inequality is fairly common in the Latin American and Caribbean region.

|  |  |
| --- | --- |
| **Year** | **GINI Coefficient** |
| 2000 | 52 |
| 2003 | 49 |
| 2005 | 50 |
| 2007 | 47 |

Figure 14: GINI coefficient for El Salvador, 2000-2007[[55]](#footnote-55)

### Income Distribution

The distribution of income between deciles in El Salvador supports similar conclusions. While income distribution has become slightly more equal over the years, it is still highly unequal. The lowest 10% of the population still holds less than 2% of the country’s wealth, while the highest 10% holds over 30% of the wealth.[[56]](#footnote-56)Income is not only a main source of resources for the home, but it also determines the level of participation in the daily lifestyles of a society.[[57]](#footnote-57)

Figure 15: El Salvador’s Income Distribution 2007[[58]](#footnote-58)

A small, very well-off upper class is upsetting many of the development measures, and hiding the difficulties faced by the rest of the population. For example, the UNDP ranks El Salvador 90 out of 169 countries rated by human development index (HDI). The HDI is composed of life expectancy at birth, mean years of schooling, expected years of schooling, and gross national income per capita, expressed as a value between 0 and 1.[[59]](#footnote-59) El Salvador received a rating of 0.659. However, when this index was adjusted for inequality, the UNDP lowered El Salvador’s rating to 0.477 and it dropped 14 places. This 27.6% decrease is greater than the average drop in rating after inequality adjustment, which was 22%.[[60]](#footnote-60) Inequality has repercussions in many aspects of the life of a Salvadoran. For example, families of low income have limited access to urban land through formal markets, so it is expected that the homes of poor people and the homes of low income families will be located in urban lands that are either already degraded or becoming degraded.[[61]](#footnote-61)

## Political Development

As Jeffrey Sachs wisely stated, “Poverty is the result of corrupt leadership and retrograde cultures that impede modern development”[[62]](#footnote-62), which is why we believe that in order to understand El Salvador’s situation, it is vital to analyze the politics of the country and how they came to be.

El Salvador did not gain its independence from Spain until 1821, along with Mexico and the rest of Central America. Right after, El Salvador joined with the other countries of Central America to form the Provinces of Central America; however this did not last long. In the year 1838 El Salvador became an independent republic.

One of the most difficult times in the history of El Salvador was the civil war that lasted from 1980 to 1992. In this war, that considerably influenced present-day politics in El Salvador, 75,000 people died and there were damages of about 2 billion dollars. The civil war was triggered by the social inequality that continues to exist between the small wealthy elite and the majority of the population living in hopeless poverty. This civil war gave rise to the two major political parties that dominate the country today; the conservative National Republic Alliance (ARENA) and the Liberal Farabundo Marti Front (FMLN). The civil war ended with Peace Accords in 1992 and El Salvador has had single, five-year democratic elections since. The aftermath of the war however was significant bad blood between the two extremes and their followers, thus creating a divide that is still present today. Although the civil war was influenced by and contributed to the divide between the small elite and the overwhelming poor, social inequality started long before with the export of coffee.[[63]](#footnote-63)The monoexport of coffee was the main cause of the inequality that is still considered one of the largest detriments to development in El Salvador.This inequality and political divide is only one of the issuesstemming from politics in El Salvador.

Government corruption is a huge issue in El Salvador. The people’s lack of faith in the government is so bad that most people have lost all interest in running for office. Political parties were perceived to be the single most corrupt institution/sector in El Salvador.[[64]](#footnote-64) Political parties have struggled in the past to encourage people to post their candidature in office. At times, many civilians who work in the parliament have resisted the opportunity to become a judge because they are aware of the threats and implications that come with the job. As the figure below shows, it is commonly believed that government corruption plays a large role in development.

**Figure 16: To What extent do you think Corruption affects development? (2008) [[65]](#footnote-65)**

Corruption within El Salvador hinders the government’s abilities to provide their people with basic social services. For example, the police service is not trusted. They are notorious for falsifying speed violations in order to receive bribesfromcivilians and gain money for themselves. The police officers are often too preoccupied with figuring out how to smuggle money than actually caring about the country’s security, and as Bernard Amadei, the founder of Engineers Without Borders once said, “without security, you cannot have development”. In addition, poor governance can also affect Public Services. Staff members in public schools or hospitals can abuse their position if the government overlooks it; they can extort monetary bribes from the people they are supposed to be helping if not supervised.

As indicated in the chart below, “useless” is the largest reason for why the citizen population may not report on crimes. The other notable reasons were a fear of vengeance, there was no evidence, or it wasn’t serious. The fact that a “fear of vengeance” and the thought that it would be “useless” are common reasons to stay silent, shows that there is a serious lack of faith in the government and the state system.

**Figure 17: Why Don’t You Report Crime? (2008) [[66]](#footnote-66)**

The next chart shows the distrust that El Salvadorans have for almost all institutions in their country. Much of this is due to the high level of corruption present or perceived in the nation.

**Figure 18: Population Trust in Institutions[[67]](#footnote-67)**

Bribery, extortion and a lack of government has become the norm for the people of El Salvador. Between 30-49.9% of the population have reported paying bribes to any of 9 different service providers.[[68]](#footnote-68) Only 15% of the population believes that the government’s fight against corruption is effective.[[69]](#footnote-69) Furthermore, when asked how the level of corruption in El Salvador has changed over the past 3 years, 48% said it had increased.[[70]](#footnote-70)

Corruption is not known solely to El Salvador, and unfortunately is a commonly increasing trend in Latin America. When asked if the government’s efforts to fight corruption have been effective, 41% of Latin Americans answered yes in 2007; but only 32% of Latin Americans answered yes in the year 2010.[[71]](#footnote-71)

Figure 19: Corruption Perception Index (Scale of 0-10; 0 being highlycorrupt and 10 being very clean).

Politically, El Salvador has a long road to development. Corruption is at the very root of the El Salvador’s development problems. The people have very little trust and faith in their government, clearly for good reasons. There has been almost no progress in this area and therefore, it is difficult to be optimistic about future potential. Until this government distrust begins to dissipate, it will be difficult for El Salvador to reach development. Not only is the government not working towards development goals, but also citizens lack the hope and faith in their country necessary to work towards development.

## Health

The health of a country says a lot about a country’s quality of life. We can measure health through the life expectancy rate, sanitation of facilities, level of malnutrition and the infant mortality rate. Not only is health a result of development, but it can also be a necessary precursor. An unhealthy population will be unable to work, attend school, or do anything else productive. Therefore, it is important to measure health, not just to see how developed El Salvador is, but also to see if the population is healthy enough to reach its full development potential. We will not go into great depth in regards to the health section, for we believe it is not one of the areas that is in dire need of improvement. Concerning health, even though there is still room to grow, El Salvador is well-off compared to other countries.

### Life Expectancy

Life expectancy gives us insight into the quality of life in regards to health care, access to health care, prevalence of diseases, nutrition levels, and much more.[[72]](#footnote-72)

**Figure 20: Life Expectancy (2008)[[73]](#footnote-73)**

As shown in the chart, the life expectancy rate in El Salvador is age 71. The average life expectancy for Latin American and Caribbean countries is age 73, for Lower Middle Income Countries it is age 68, and finally for the World Average it is age 69. We can conclude that El Salvador is more developed than most in this respect, since the life expectancy is above most averages except for other Latin American and Caribbean countries.

### Infant Mortality

El Salvador has a relatively low infant mortality rate, in comparison to the World and other Lower Middle Income Countries.[[74]](#footnote-74)This measure is very important because it tells us how many children survive past the age of five. Similar to the life expectancy rate, we get a better idea as to the quality of healthcare, the access to healthcare, and the nature of knowledge related to childbearing and rearing.

**Figure 21: Infant Mortality Rates (2008) [[75]](#footnote-75)**

As shown in the chart, the Under Five Mortality rate for El Salvador is 16.6 (out of 1000 children under five), which is much smaller than the levels of Latin American and the Caribbean, Lower Middle Income Countries and the World; however, when comparing with specific countries of the region (Chile, Honduras, Guatemala), El Salvador still has some catching up to do. It has shown vast improvements since 1980, reducing the rate from 62.3 to 18.6 in 2009.

**Figure 22: Infant Mortality Rates [[76]](#footnote-76)**

Improvements can be made in ensuring that health services related to childbirth are available in rural regions. There is still a large divide in El Salvador between urban and rural healthcare services. According to the World Health Organization, 93.3% of childbirths in urban areas were assisted by a skilled birth attendant, while only 79.1% of childbirths in rural areas had skilled assistance.[[77]](#footnote-77)

### Improved Sanitation Facilities

Another indicator of health is the level of improved sanitation facilities. El Salvador has high levels of sanitation facilities relative to most other regions.[[78]](#footnote-78)Improved facilities range from simple but protected pit latrines, to flush toilets with a sewerage connection. To be effective, facilities must be correctly constructed and properly maintained.[[79]](#footnote-79)El Salvador’s Improved Sanitation rate in 2009 was 85%, which was much higher than Lower Middle Income Countries (35%), other Latin American and Caribbean countries (79%) and the World (60.6%).

**Figure 23: Improved Sanitation Rates (2008)[[80]](#footnote-80)**

Compared to specific countries of the region, El Salvador was second highest with 87% sanitation rate. Chile was 96%, Honduras 71%, and Guatemala 81%.

**Figure 24: Improved Sanitation Rates (2008)[[81]](#footnote-81)**

According to the CIA World Factbook, El Salvador has a “high” risk (compared to the US) for major infectious diseases due to poor sanitation and water quality. Diseases from food or water include bacterial diarrhea, hepatitis A, typhoid fever, andleptospirosis.[[82]](#footnote-82)It is estimated that 90% of the water in El Salvador is contaminated.[[83]](#footnote-83)There is also a large gap between the urban and rural populations for access to clean water.

Figure 25: El Salvador, Rural vs. Urban Safe Water and Sanitation %[[84]](#footnote-84)

In the urban areas, safe water access stood at 84% in 2004 and access to adequate sanitation at 62%. Access is particularly low in rural areas, where 39% of the population lives. It stands at 70% for safe water and 39% for adequate sanitation. Clearly, improvements must be made in rural areas to improve the quality of life in El Salvador.

### Malnutrition

El Salvador has less malnutrition than most of the world and countries of its region, but could still use improvement. Malnutrition tells us the percentage of children under five that are not getting enough nutrition in their diets.[[85]](#footnote-85)If children are suffering from malnutrition, then it is likely they will experience stunted growth, mental disorders and, from an economist’s perspective, they are unable to be productive members of society. Malnutrition severely stunts development and quality of life within societies that do not address it.

El Salvador’s malnutrition rate is 6.1%, much less than the World’s and Lower Middle Income Countries’ rates, which are 22.4% and 25%, respectively; however, they are slightly higher than other Latin American and Caribbean countries, which have a 4.5% malnutrition rate.

**Figure 26: Malnutrition Rates (2008)[[86]](#footnote-86)**

In comparison to other countries of the region, El Salvador has the second lowest malnutrition rate at 6.1%, next to Chile at .5% and much less than Honduras (8.6%) and Guatemala (17.7%).

**Figure 27: Malnutrition for Children Under 5 – Weight for Age (percentage of children under 5)[[87]](#footnote-87)**

The public health system in El Salvador is less than ideal. Although the government spends an average amount on health care compared its region (6.2% of GDP[[88]](#footnote-88)), there are major inequalities between urban and rural regions. It is also estimated that there are 148 physicians to every 100,000 people in El Salvador[[89]](#footnote-89), which appears to be very low. “Health services are not readily accessible to a majority of the population. In the more isolated regions of El Salvador, there are almost no physicians. Government clinics often lack adequate personnel, equipment and medicines.”[[90]](#footnote-90)“Using the private physician and medical facilities is expensive; only the wealthy can afford these procedures.  The poor are relegated to using the free government hospitals and clinics.  These facilities do an adequate job of providing immunizations, prenatal care and educational material, but do not have the funds or the staffing to perform surgical procedures which in the U.S. would be considered routine”.[[91]](#footnote-91)The World Health Organization lists fragmented and segmented health services as one of the biggest challenges facing El Salvador’s population health. The government should work on implementing national health policies that will reach all regions. While a complete healthy population should be a development goal, El Salvador must also improve health in order to facilitate development. If the rural population is spending excessive time either being ill, or traveling to health clinics, they are wasting time and human capital that El Salvador needs for development. While health does not seem to be causing a major roadblock to development in El Salvador, improvements in rural healthcare will push the country even closer to reaching its potential.

## Education

The education system in El Salvador has a history of struggling to provide an education to the public and attempting to fix the urban-rural gap. El Salvador’s primary-school enrollment increased by 90 percent in the 1970s; however, most of the increases were in the urban areas, especially in San Salvador. While primary-school education did increase, it was common for children to start working before the age of 15, which is part of the reason for such high attrition rates in that decade. Progress in education was hindered by political tensions in the 1980s, partly caused by rural landowners who preferred to have a less educated workforce so they would be less likely to demand higher wages and political reform. Many teachers who were thought to be supporting political reform were threatened. There have been many attempts by the Ministry of Education to raise the level of education in the rural areas up to the level of urban areas, but an educational gap still remains.[[92]](#footnote-92)

The public education system in El Salvador is free up to and including high school; however, pre-university education requires a fee that not all families can afford. In high school, students have the option of one of two tracks: the two year program (high school degree) or three year technical program (leads to accountancy, secretary degree, etc).[[93]](#footnote-93) Further education leads to a university degree that is not paid for by the state.

Education is essential for the development of a country. It is the key to opportunities, innovations and all around improvement in quality of life. We can measure it with the Literacy Rate, Primary Completion Rate, Enrollment Numbers, and Access to Information. As our research below shows, El Salvador has room for improvement in the education sector. Increased literacy rates and a more educated population will in turn lead to further development in other areas. While education may not be the biggest problem plaguing El Salvador, improvement is still definitely in their best interest.

### Literacy Rate

The Literacy Rate measures the percentage of the population (in this case the population over age 15) that can read and write. El Salvador has a high literacy rate compared to many of its neighbors, but at 84% it is still less than ideal. Guatemala lags behind the region in literacy at 74%, Honduras also has 84% and Chile is far ahead at 99%.

Literacy Rates

**Figure 28: Literacy Rate (2008) [[94]](#footnote-94)**

The literacy rate is a useful tool as it helps measure the effectiveness of the education system. Clive Hamilton also states the literacy rate as a factor that contributes to the productiveness of investments.[[95]](#footnote-95) As mentioned before, El Salvador’s investments have not been particularly productive, so the less than perfect literacy rate may be an indicator of why. There remains a percentage of the population that is not literate, mainly as a consequence of low quality of education, unequal access to education, limited financial resources and, in some cases, lack of motivation or interest.[[96]](#footnote-96)

### School Enrollment, Primary and Secondary (Gross and Net rate)

Primary education is extremely important to development; it provides children with basic reading, writing, and mathematics skills along with an elementary understanding of such subjects as history, geography, natural science, social science, art, and music. Secondary school focuses on furthering student’s education, moving past basic skills and implementing study-skill learning.[[97]](#footnote-97)

We can measure enrollment it in two ways: the Gross Enrollment Ratio (GER)[[98]](#footnote-98) and the Net Enrollment Ratio (NER)[[99]](#footnote-99).In our comparison to other countries, El Salvador ranks 3rd in primary school GER. El Salvador’s GER for primary school is 115, Chile is 106, Honduras 116 and Guatemala 114. For secondary school GER, El Salvador ranks 2nd at 65, before that Chile with 91, Honduras 65 and Guatemala with 57.

**Figure 29: School Enrollment, Primary and Secondary School Gross Ratio (2008)[[100]](#footnote-100)**

Both El Salvador and Chile have a primary school NER of 94%, while Honduras has 97% and Guatemala has 95%. Relative to other countries of the region, El Salvador is lagging behind in primary school enrollment; which can be attributed to the fact that many of the children either endure a gradual process of enrollment or quickly drop out.[[101]](#footnote-101)Furthermore, it seems that El Salvador has a very large gap between primary and secondary net enrollment; only 64% of the school age children are enrolled in secondary school. The other countries of the region also have a large gap, Honduras has 65% and Guatemala has 57%. Chile, however, maintains a high enrollment at 91%. This gap may be due to the need for children to enter the work force at an earlier age, to help the family at home, or simply the inability to pay for higher education at the university level.

**Figure 30: School Enrollment Net Ratio, Primary and Secondary School (2008) [[102]](#footnote-102)**

### Primary School Completion Rate

The Primary School Completion Rate, as defined by the World Bank, is the percentage of children of the graduation age that complete their last year of primary school.

**Figure 31: Primary Completion Rate, Total (percentage of total population)[[103]](#footnote-103)**

El Salvador has a Primary School Completion rate of 89%, which is lower than Chile (95%) and Honduras (90%) but higher than Guatemala (74%). 11% percent of the population of El Salvador lacks a full primary education, which is very necessary for jobs, higher education, and basic everyday knowledge. Primary school provides a basic education that is necessary to drive development. One of the reasons why the completion rate is not higher is because of over-age problem. Ideally, children would be enrolled when they are at the age of seven, however this is not always the case. Many children are enrolled when they are older, thus making it less likely for them to finish their education. Reasons found for the over-age problem are socioeconomic factors and the different value students and their families place on education.[[104]](#footnote-104)

### Access to Information

Furthermore, the ability to access information for individuals and society is important for many reasons; such as knowledge of the world beyond the immediate community, connections for medical emergencies, spreading and receiving ideas, and much more. The ability to access information was measured in two ways: internet users per 100 people and the number of mobile phone subscriptions per 100 people. We judge internet users to be those who have access to the worldwide network, and the definition of mobile phone subscriptions include post-paid and prepaid subscriptions.

Figure 32: Access to Information, Mobile Phone and Internet Users

Chile has the highest number of internet users, with 32.5 on average per 100 people, with Guatemala following at 14.3, then Honduras with 13.6 and then El Salvador with 10.3. El Salvador had the highest number of mobile phone subscriptions per 100 people, with 113 subscriptions. Guatemala follows with 109, then Chile with 88 and Honduras with 85.

El Salvador ranks the lowest on internet access in our comparisons, and is as also below the world average (28.9 users per 100 people). This indicator could mean there are barriers to information, which affect education, innovation and the spread of ideas. It also may signal problems with El Salvador’s infrastructure.

In regards to mobile phone subscriptions, the numbers are misleading because most people in El Salvador only have mobile phones and not a home land line. This switch from landlines to a mobile phone was the result of constant problems with fixed-lines being taken out by natural disasters.[[105]](#footnote-105)El Salvador ranks the highest of mobile phone subscriptions at 113, which means some people have more than one subscription. In the least, this high number indicates that people in El Salvador are connected at a decent level through mobile phones, increasing their access to information, ability to call for emergencies, and general efficiency in communication.

## Crime

Crime is extremely influential to the development of El Salvador is because it has repercussions that deteriorate the quality of life of its citizens. Crime destroys human and social capital. It forces part of the population to move overseasin an effort to try and escape the violence at home. Those who remain are overwhelmed with fear. Perpetrators of crime also add to the wasted human capital.Instead of being productive in society, they occupy their time with activities that do not benefit the nation at all. Furthermore, if caught, as we have learned that a big part of members of gangs are in fact behind bars, their chances of acquiring employment are severely diminished.

In addition to the destruction of human and social capital, the economy also suffers as a result of crime. According to a World Development Report done by the World Bank, “In Latin America more than 50 percent of firms surveyed judged crime to be a serious obstacle to conducting business.” Crime discourages investment and trust, and therefore eliminates numerous business opportunities. El Salvador’s economy has the potential to benefit greatly from tourism. Crime, however, eradicates this potential. It not only induces fear in natives, but in foreigners as well.

This high level of crime also takes a toll on the relationship between the people and the government. As the government has not yet found a way to control and protect its people from crime, people are given yet another reason to distrust their government. Clearly, crime is deteriorating all the progress El Salvador is making in its development.

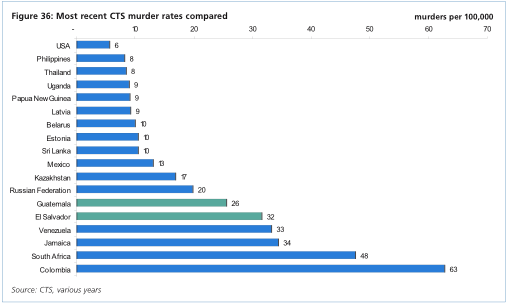
The term “crime” can have a lot of meanings; in its simplest form crime means breaking the law. This term, however, is much more complex than that. Crime encompasses threats, kidnappings, extortions, drugs, homicides and, for some, even a lifestyle. The two most critical aspects of crime that influence El Salvador are homicides and gangs.

### Homicide

Murder is a crime that unfortunately occurs everywhere. There is a variety of reasons as to why murders can be provoked; robberies, drugs, gang initiations and many more. El Salvador’s homicide rates are not only high for Central American standards, but are high worldwide as well. Some might believe that the reason for high homicide rates lies within the vast availability of firearms the country has. Registered firearms are used to commit more than 70% of homicides.[[106]](#footnote-106) Certainly the spread of these weapons can lead to increases in their usage; however, they are not the only weapons utilized in murder. A study from 2001 done by the Salvadoran Ministry of Health reported that firearms were responsible for 57 per 100, 000 deaths in the country; meanwhile other weapons, such as knives or machetes, were responsible for 118 per 100,000 deaths.[[107]](#footnote-107)

As shown in the charts below, El Salvador has one of the highest rates of murders, just after Venezuela. The country also has a staggering amount of intentional homicides, much greater than Chile, Honduras or Guatemala.

Murders per 100,000

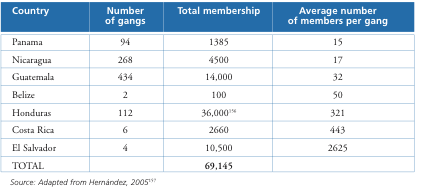
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**Figure 34: Most Recent CTS (Crime Trend Surveys) murder rates compared**

**Figure 35: Intentional Homicide Rates in 2004 (per 100,000 people, WHO)**

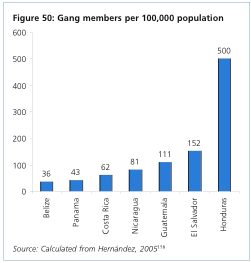
### Gangs

Gangs are without a doubt one of the worst problems facing Central America; and instead of getting better, the situation continues to rapidly worsen.



**Figure 36: Gangs in Central America**

Salvadorans join gangs from as young as eleven years old. For some, it’s an escape from their lives. Some children are abandoned by their parents, and thus join a gang to find the family they never had. One of the most notorious gangs worldwide, Mara Salvatrucha, started in Los Angeles, CA by Salvadorans who escaped and found themselves alone in a different country. They banded together, and once they were deported from the United States they brought their gangs home with them. El Salvador has two large rival gangs, Mara Salvatrucha and Mara 18. The members themselves are not even aware of the reasons as to why they despise each other; all they know is that it is their duty to eliminate the other.[[108]](#footnote-108)Being part of a gang eradicates any aspirations in life. Members believe that reaching the age of 37 is what is expected, and anything beyond that is luck. They don’t see any alternatives to joining a gang and once they join, they have many dangerous rules to live by.



**Figure 37: Gang Members per 100,000 Population**

El Salvador has a very large population of gang members. This helps to explain why El Salvador has a large part of its population behind bars. It has a significantly higher population in jail than both Guatemala and Honduras. Approximately one third of prisoners are gang members[[109]](#footnote-109), which is about 7,000 people. The rivalry between the two powerful gangs was too much for a prison to handle, and now Mara Salvatrucha has a prison all to their own; one in which they have to share beds because the prison is not big enough for the amount of prisoners. The disappointing reality is that, even behind bars, gangs do not lose their power and could be considered to have leverage with the guards. If a guard disturbs a gang member in any way, he could easily call up a member who is not locked up and demand to have the guard killed.[[110]](#footnote-110)

Crime is obviously a significant problem in El Salvador. Its presence brings fear, corruption, distrust, and ultimately presents a barrier towards the country’s development. As crime continues to be widespread, human capital will be lost, the economy will suffer, investments will decrease, and the government will continue to be distrusted. El Salvador cannot successfully develop with such a large crime problem.

# Conclusion and Development Proposals

In conclusion, El Salvador is a country that has great potential for development. It has one of the largest economies in Central America, and has made great strides in both health and education. However, there are still several large problems that are keeping El Salvador from reaching its full potential. By comparing our research to widely accepted development theories, we were able to see what the biggest issues are and why El Salvador is as poor as it is. The absence of a savings rate, the immense inequality, the government corruption and high crime rates, and the constant fear of natural disasters are factors that are causing El Salvador to remain undeveloped. Therefore, we have looked to these areas when formulating rough cut development proposals that could be implemented in the country.

Our first proposal deals with giving children in El Salvador a healthy alternative to joining gangs. Most members join gangs around age eleven, mainly to find a feeling of belonging and family. In order to encourage less of these kids to join gangs we need to offer them another way to feel accepted. A possible idea would be to create an afterschool program in which students could join sports teams or engage in other activities with their friends. We could also use older students to act as mentors or coaches in order to involve children of all ages. The program could culminate in a final tournament or celebration in order to give the children something to look forward to and work for. A main reason for joining a gang is not having any future goals, so giving kids something to work towards would be a positive change.

In order to address the poor savings rate and the urban/rural gap in El Salvador, we could also consider a development project focusing on microfinance and financial education in rural areas. This could allow farmers and other people working in rural areas access to loans to enhance their businesses. As discussed earlier, more investment in agriculture can trigger development in all areas of the economy. This could be a way to increase growth with equity. Many people, especially in rural areas, think about immediate consumption rather than the future. They may not understand the benefits of saving, especially if they receive regular remittances from relatives working in other countries. A combination of microfinance plus education on savings and other financial advice could be very helpful in rural El Salvador.

Another area that could be addressed by a development project is government corruption. However, we acknowledge that this problem is probably too large for us to handle in a small NGO setting. Therefore, we propose partnering with a larger organization committed to good governance, such as Transparency International. While we may not be able to solve corruption, it is important to spread awareness and especially to educate voters. We could consider a project that takes information already gathered by NGOs such as Transparency International and try to disseminate this information more successfully to citizens in El Salvador. This would allow them to be more aware of what the government is doing and help them choose a political party to support that suites their needs. While these are all large issues that we cannot hope to completely solve ourselves, there are several programs we can work on to help alleviate some of the problems, and thus aid the process of development in El Salvador.

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