



European Research Centre for  
Anti-Corruption and State-Building

Working Paper No. 24

ERCAS Working Papers

## **Transitions to Good Governance: The Case of El Salvador**

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January 2011  
[www.againstcorruption.eu](http://www.againstcorruption.eu)

## Introduction

El Salvador is a lower-middle income country and is among the smallest nations in continental Latin America, with a population slightly above 6 million. Its political history has been very turbulent, marked by almost five decades of military rule and a series of internal *coups d'état* until the late 1970s. A transition to democracy finally started after the military were overthrown and replaced by a governing *Junta* that pushed for a new Constitution and free elections, which took place for the first time in 1984.

At this point in time, however, the country was immersed in a civil war. In 1980 the leftist guerrilla group Farabundo Martí National Liberation Front (FMLN) initiated an armed uprising against the national government. The conflict came to last 12 years and killed around 75,000 people. It was finally ended through the 1992 Peace Accords, agreed upon with mediation by the United Nations.

The Peace Accords brought an important contribution to strengthening democracy in the country, as they provided for the integration of the FMLN to the party system. The FMLN became the party with the second largest representation in Parliament already in 1994, when it participated in elections for the first time. Since then it established itself as the main opposition party in the country until 2009, when it won the presidential run and also became the largest party in the Legislative Assembly. The election of the journalist Mauricio Funes was the first alternation in power since the transition to democracy started; before that, the right-wing party ARENA governed the country for two decades.

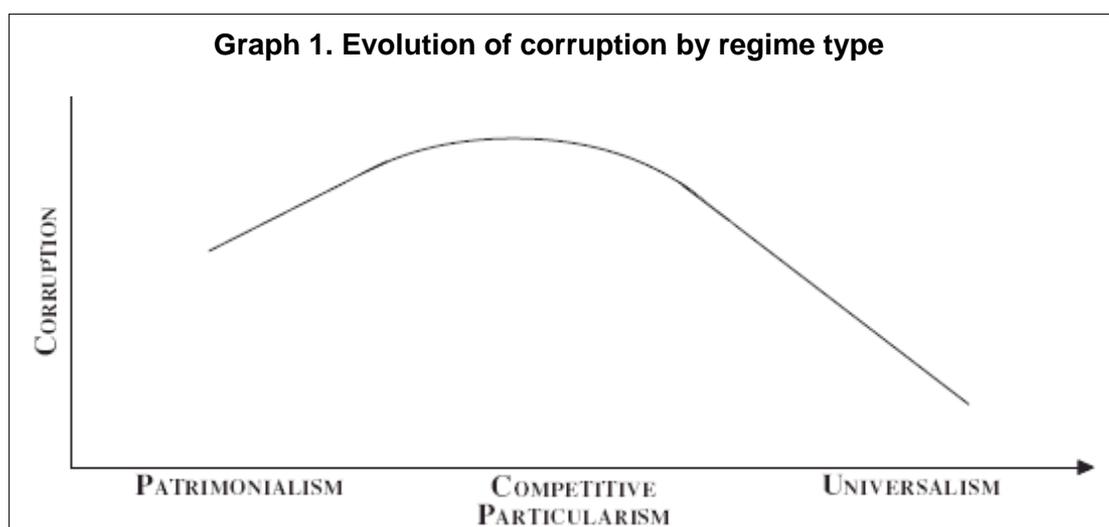
These steps towards more political competition have constituted an important part of El Salvador's transition to good governance. Unfortunately, however, they represent almost all the change in the country in the last years. Other necessary reforms to improve governance are taking place at a slower pace, as is the case with anti-corruption initiatives. Nevertheless, the present political moment could be an opportunity for speeding up such changes.

## Characteristics of transition

When we examine the country's transition to good governance, we consider two main dimensions: political competition and corruption. The combinations of these two dimensions allow us to classify political systems into three main categories, namely **patrimonialism (or neo-patrimonialism)**, **competitive particularism** and **universalism**. Patrimonialism is characterized by closed access to power and a relatively high level of capture of state resources. Competitive particularism, differently, involves a more open access to the state, but still restricted to privileged groups who dispute the

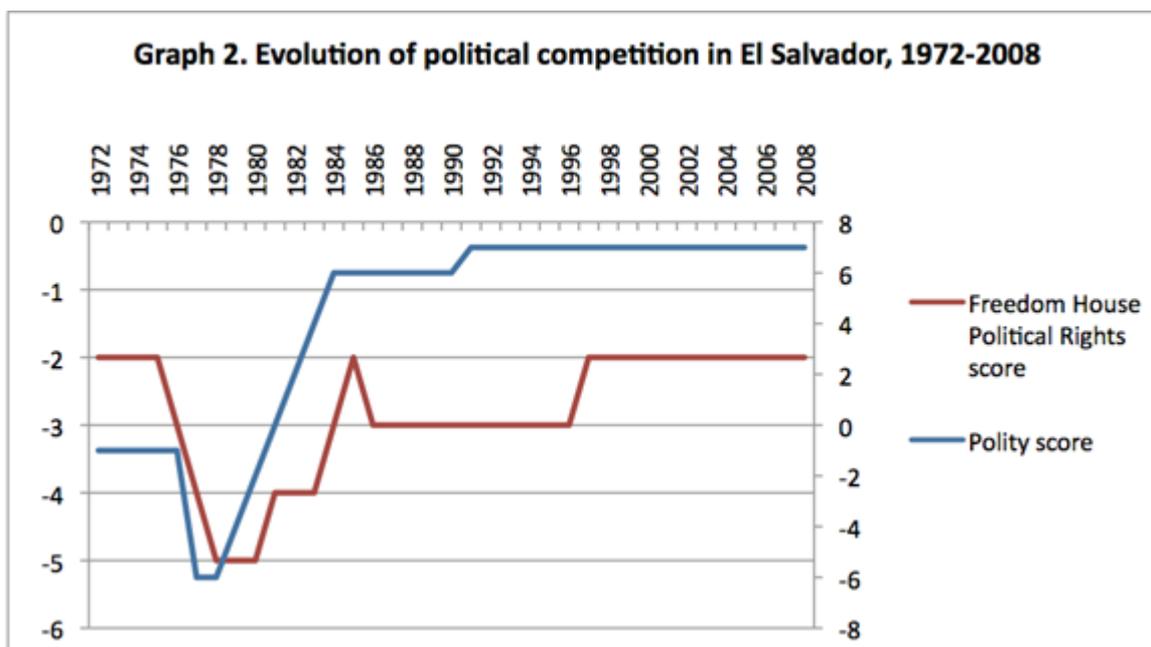
state's spoils, usually contributing to overall increased rent-seeking. Universalism describes the state in which the political system has evolved to completely open access to power accompanied by the state's complete autonomy from private interests; this is the state associated with good governance.

The definition of these three categories relies on the hypothesized non-linear relationship between democracy and corruption, as shown in graph 1. According to this hypothesis, countries are expected to follow the trajectory described by the curve as political competition increases.



Source: Mungiu-Pippidi, 2006.

In the case of El Salvador, as previously mentioned, we see a positive evolution in the political competition spectrum. This can be shown by indicators such as the Freedom House Political Rights score and the Polity score for democracy. Graph 2 shows how these indicators have varied throughout time since 1972, when the Freedom House score was first published for El Salvador. The Polity score was already recorded before that, but the starting point of 1972 was chosen to allow the comparison between the trends in both scores. The Freedom House score is represented on the left vertical axis; the scale, now ranging from -7 to -1, was reversed to enable interpretation of higher values as stronger political rights. The Polity score is represented on the right vertical axis and ranges from -10 to 10 (most democratic).



Source: The Quality of Government Institute time-series dataset (version 27 May, 2010).

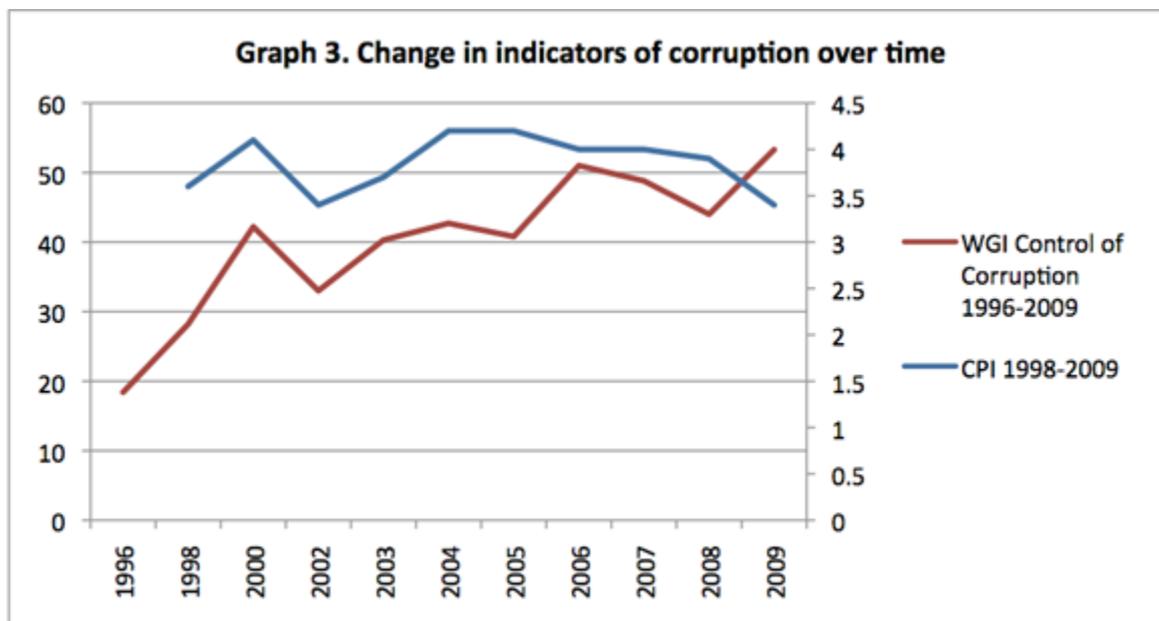
Both indicators show a similar trend towards increased political competition, with an important breakthrough in the early 1980s, when the democratization process began. Around 1984, when the first free elections took place, the country achieved a higher level of political competition and remained almost stable ever since, with a small improvement afterwards.

Despite these improvements, some obstacles to political competition remain. There are few restrictions to electoral campaigning, both in terms of the amount of funds raised by the parties and of the content of campaigns. Basically there are no regulations to amounts received and spent by parties during the campaign, and requirements of financial disclosure are very limited. The lack of such regulations creates impediments to fair competition among parties. The Supreme Electoral Court, which should arbitrate disputes and guarantee equal competition, is considered to be much politicized and has failed to rule impartially in the past.

An improvement on the corruption side is less clear. The World Bank's Worldwide Governance Indicator (WGI) Control of Corruption, for instance, shows a positive and statistically significant change between 1996, when the country ranked at the 18th percentile, and 2009, when it reached the 53rd percentile. Transparency International's Corruption Perceptions Index (CPI), on the other hand, shows a different pattern, with some recent deterioration. We should be cautious when using this index to illustrate changes over time, however, because the number of sources used to compose it may change from one year to the next.

The variation in those indices across time is shown in Graph 3. The WGI Control of Corruption indicator is shown on the left vertical axis and represents the percentile rank of the country in each

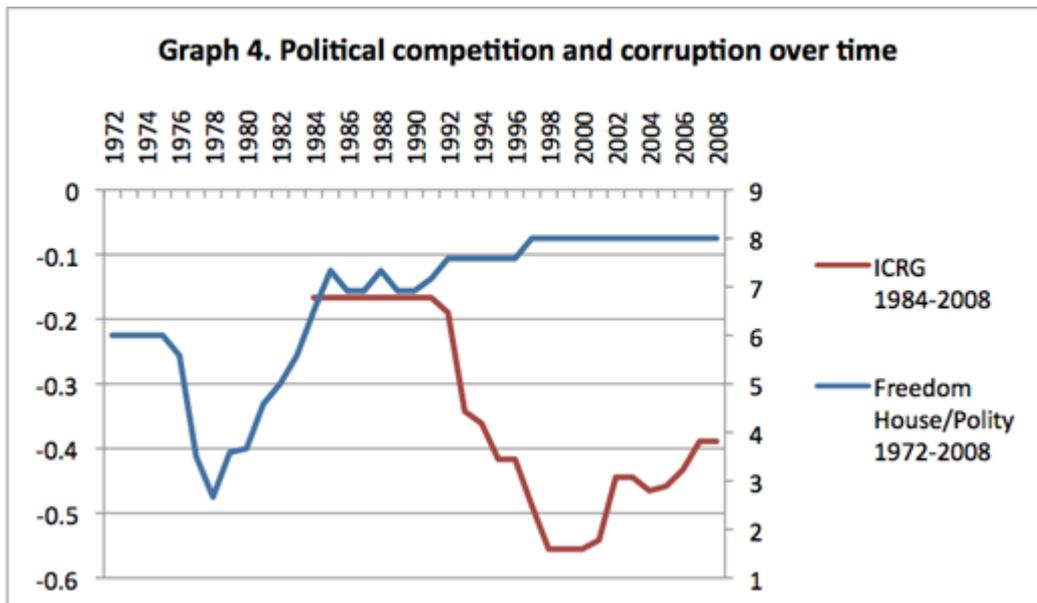
year; the CPI values are on the right vertical axis and range between 0 and 10 (least corrupt). Both indices do follow a similar pattern until 2005 and then show apparently opposing directions in how corruption is evolving in El Salvador.



Source: The Quality of Government Institute time-series dataset (version 27 May, 2010); World Bank Worldwide Governance Indicators.

In order to identify in which of the three theoretically defined stages of governance the country can be placed, we look at how democracy and corruption changed over time together. For this purpose, the International Country Risk Guide (ICRG) Quality of Government indicator is more appropriate, because it has been measured for El Salvador since 1984. It is composed by a measure of three variables: corruption, law and order and bureaucracy quality. Although it does not exclusively measure corruption, it is the only proxy available with a longer time-series.

Graph 4 shows how corruption, as measured by the ICRG indicator, decreased over time until 2000, when it started to worsen again. During the same period of time, the indicator for democracy varied slightly upwards. The ICRG original scale ranges from 0 to 1 (better government); the scale was reversed to allow the interpretation of highest values as highest corruption levels. It is shown on the left vertical axis. As an indicator of democracy, a combination of the Freedom House and the Polity scores was used; the scale of this new indicator is shown on the right vertical axis and ranges from 0 to 10 (most democratic).



Source: The Quality of Government Institute time-series dataset (version 27 May, 2010).

The ICRG indicator is available only for the period after El Salvador's transition had already started, i.e. the country had already experienced a breakthrough in terms of political competition. The trend after that shows declining corruption while democracy is further strengthened, and increasing corruption from 2000 onwards. According to this data, the country appears to have followed a path different from what was originally hypothesized. In this case, more political competition was initially accompanied by less corruption, a pattern expected only in a stage closer to universalism.

This can be explained by the fact that the country adopted several liberalizing reforms in the 1990s. The Cristiani (1989-1994) and Calderón (1994-1999) administrations initiated economic reforms to reduce the fiscal deficit and privatized state banks, factories and service providers mainly in the energy and communication sectors, modernized the tax system and liberalized trade. It is possible that such reforms in fact contributed to reduce corruption, but it can also be the case that this "modernizing" process was perceived by the international business community as an important step to reduce corruption and this perception influenced corruption indicators, portraying a more positive picture of the country.

Additional reforms included the passing a new Law of State Financial Administration and new regulation for the Court of Accounts. Other efforts to curb corruption during this period were scarce; important changes were the ratification of the Interamerican Convention against Corruption in 1998, the passing of a law against money laundry and new regulation for banks in 1999 and a new law for public procurement and contracting in early 2000. Implementation of the Interamerican convention has been weak; the law against money laundry, on the other hand, was more effectively

implemented with technical support from the United States for investigation capacity building and prosecutions based on the law already took place a year later.

El Salvador can be considered a case of competitive particularism. Regarding access to power, there is some competition, and the recent alternation in power is a strong sign of that, but political connections still prevail in appointments to important positions in all branches of government, including the Judiciary. Supreme Court judges, for instance, are in theory elected by the Legislative out of a list of names suggested by the National Judicial Council, but in practice the parties with largest representation divide the appointments into quotas among themselves. Each of the 15 members of the Court is elected for a nine-year term and can only be dismissed with a two-third approval of the National Assembly.

Another sign of restricted access to power is the political alliances between parties. When ARENA was the governing party, it never had the majority of seats in the Parliament and always had to form alliances with smaller parties, such as the National Conciliation Party (PCN). This alliance was often built in exchange of important political positions in the government for the PCN, among which the chair of the Court of Accounts. Once ARENA lost the presidency to the FLMN, 13 of its 32 representatives left the party to form a new one, called Grand Alliance for National Unity (GANU). The new party has had the tendency to support FLMN in the Parliament, suggesting that the emergence of GANU may have been a strategy of the representatives that formed it to seek advantages in the present government, which would not have been possible had they stayed in ARENA, considering the strong political polarization between that party and the FLMN.

Corruption seems to have been present to some extent in all recent governments. Even during the period that corruption is believed to have decreased, there are accusations of big corruption schemes, such as the one involving the privatization of public banks in 1990, frauds in public credit institutions that amount to US\$ 300 million in the period 1995-1999 and irregularities in contracting of public construction works between 1998 and 2001.

The government of Elías Antonio Saca (2004-2009) has been portrayed as one of the most corrupt in the country. It has been reported that US\$ 250 million of government funds have disappeared. Saca himself has admitted that at least US\$ 200 million were assigned to a special fund to be used with the president's discretion, but he could not explain to what end the money was used. Previous governments had access to resources in a similar way, but the amount available to them was 100 times smaller than that. It is also believed that these resources were used as financial incentives to attract members to the governing party then (ARENA).

The government's efforts to investigate such accusations were almost inexistent during the ARENA administrations. Only after the recent change in government we see an interest in pursue these investigations by the present administration.

This situation shows that El Salvador has advanced significantly towards more political competition, but there is still room for improvement. Regarding corruption, indicators show that the country improved, but what we see in reality is that anticorruption initiatives are still too few and big corruption cases may have existed, but have not been fully investigated. It is important that the country strengthen its corruption control mechanisms.

## **Recommendations**

Undue political influence on important government institutions seems to be an underlying problem in El Salvador, affecting both the political competition and the corruption aspects of our analysis. As mentioned before, political competition is still threatened by the fact that electoral competition is not completely fair and the governing party has had a clear advantage in terms of access to financial resources, at least in previous elections. When abuses such as the use of public funds for political campaigning and campaigns beginning earlier than stipulated in the legislation were reported, the Supreme Electoral Court failed to act to guarantee fairness of competition.

Another example of political influence is the fact that the Court of Accounts has been controlled by the PCN as a result of coalition agreements between this party and ARENA in previous governments. The Court of Accounts is a fundamental institution of external control over the use of public funds and the political arrangements associated with appointments of its members certainly make it less independent and reduce the likelihood that it performs its function properly.

The informal arrangement between parties in the Legislative Assembly to appoint members to high judicial bodies, such as the Supreme Court of Justice and the National Judicial Council, also contributes to reduce the independence of the Judiciary and limit its capacity to enforce the law and punish those involved in corruption. The Attorney-General's office has also been described as a very passive body that has failed to investigate previous corruption scandals and, in some cases, might even have deliberately obstructed investigations. These institutions are essential to reducing corruption, because when they are effective in punishing corruption the likelihood of punishment increases and that is expected to work as a disincentive to corrupt behavior. However, in the case of El Salvador, they represent an important weakness that must be addressed.

The scope of assistance that foreign donors may give to tackle this particular problem is probably very limited, since the effectiveness of efforts to strengthen the independence of oversight institutions and the Judiciary depends ultimately on political will and leadership from the government's side. Previous experience with a project financed by the World Bank to improve efficiency of and access to judicial services was less than satisfactory. The project was

implemented until 2008 and concrete results were very limited; corruption was one of the main obstacles, which the project by itself was not capable of overcoming.

The current political situation in the country appears to be favorable to positive reforms. The president Mauricio Funes was elected by the FMLN, but has no historical connection to the leftist party and usually has a more moderate political position. This has enabled him to establish a dialogue with the other parties. Moreover, the emergence of GANA has given the president a potentially wider support in the Parliament, which creates a more comfortable position to pursue changes in the legislation. Funes is in his second year of a five-year term and has publically committed to fighting corruption. He has also initiated investigations of corruption cases from previous governments. His administration seems to favor the independence of the Judiciary and other control institutions; recent appointments appear to move in that direction. Additionally, a Sub-secretary of Transparency has been created in 2009. However, it is still not clear to what extent this issue is a priority to this government.

Nevertheless, there are other obstacles to the further improvement of governance in El Salvador. It must be noted that corruption does not seem to be a priority issue to the population. In a public opinion survey conducted for the Public Opinion in Latin America Project (OPAL), only 1.3% of respondents considered corruption to be a serious problem in the country, even though almost 70% thought corruption was somewhat or very generalized. The issues that were mentioned by most individuals as priority issues were employment and security. This is related to the fact that El Salvador faces severe problems of violence, an aspect that certainly diverts attention away from the topic of corruption.

Civil society and the press are also relatively weak and therefore offer little support to strengthening democracy in the country. According to Freedom House, El Salvador's civic participation and monitoring score is 5.33 out of 7 (worst value). The press is granted considerable freedom of expression, but the main problem is internal censorship due to the political interests of newspaper and networks owners, which are in the majority associated with ARENA, the main right-wing party.

Given these circumstances, foreign donors should focus on two possible lines of action. The first one would be to strengthen civil society. Two organizations have gained prominence in advocating for political reforms, in particular anticorruption reforms: the Salvadoran Foundation for Economic and Social Development (FUSADES) and the National Foundation for Development (FUNDE), which is also the Transparency International's national chapter in the country. By supporting organizations such as these, donors would be contributing to reinforcing one fundamental pillar of democracy in El Salvador. Furthermore, in the medium run this would help increase pressure on the government to promote important changes towards more transparency, political competition and stronger corruption control mechanisms.

A second line of action could be fostering the capacity of oversight institutions to effectively check government action and investigate corruption cases. This is an important gap that contributes to inefficiency in such institutions. International donors could finance training and capacity building projects. This problem must be dealt with eventually and the long-term payoff for initiatives in this direction could be high.

## Conclusion

El Salvador has changed much in the last 20 years. It has managed to move from a previous military regime and a civil war to a democracy, but this process is still in progress. The country must yet face a number of weaknesses to continue its transition to good governance, particularly regarding the development of an active civil society, a free and impartial press and lower levels of corruption. Assistance from foreign donors will be an important support to future improvements, especially concerning the strengthening of civil society and institutional capacity building to fight corruption more effectively.

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