

## The crisis and some encouraging changes



Two decades of neoliberal economic policies have left the country in an extremely vulnerable situation in the face of the global economic crisis. Deteriorating social, economic, political and environmental conditions, social and labour market exclusion, falling remittances and rising prices of basic goods are just some of the devastating effects. Although part of the problem has been the high degree of dependency on the United States, political changes in both countries could make this very dependency conducive to finding a way out.

### Social Watch El Salvador

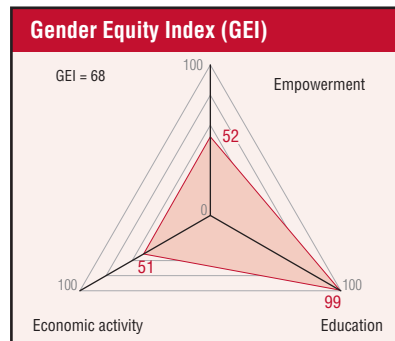
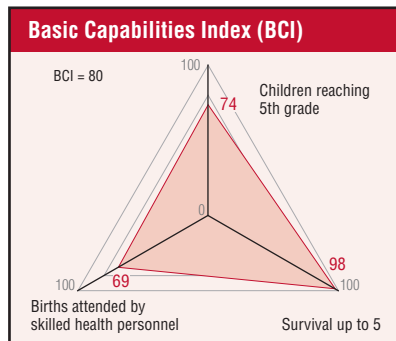
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El Salvador has experienced 20 years of neoliberal government that infringed the economic, social, cultural and environmental rights of broad sections of the population. This situation is further complicated by the fact that no provision has been made to counteract the effects of the recession in the United States, the crisis in food and fuel prices or the environmental crisis.

### Deteriorating public services and conditions of employment

There has been a deterioration in the quality and scope of public services due to the erosion of the role of the State. The proportion of the budget assigned to provide these services has been reduced and a market approach has been imposed involving privatization of state-owned companies and the sale of state assets. Housing, health care, education and water are increasingly under pressure and, if the economic crisis becomes prolonged, this is likely to provoke further social tensions, weakening the State and increasing the likelihood of instability and violence. Amongst the most vulnerable populations there is concern over the increase in the number of working children,<sup>2</sup> in gastrointestinal and respiratory diseases, in people with HIV, and in insecurity, as well as in children and teenagers joining urban gangs.

In addition, flexibilization of the labour market as a “business incentive” for reducing labour costs has led to a deterioration in working conditions, the loss of purchasing power of salaries, and the creation of low-productivity jobs and productive jobs carried out in precarious conditions.<sup>3</sup> Apart from limited



access to public services and livelihoods for the unemployed, there is a lack of access to productive, quality jobs that are sufficiently attractive to retain the employed population.<sup>4</sup> While for the last five-year period the unemployed population is estimated to be less than 7% of the economically active population (EAP), UNDP reports that only 20% of the EAP has a permanent, well-paid job with all social benefits.<sup>5</sup>

### An economy dependent on the United States

Although various global financial institutions have noted that El Salvador’s economy is one of the most sound in Central America, it is highly dependent on trade with the United States and the effects of the crisis were soon felt. According to the Central Reserve Bank (BCR), 51% of Salvadoran exports went to the United States in 2007. In October 2008 banks began increasing interest rates and restricting access to credit, leading to uncertainty. Exports, tourism and family remittances began to fall.<sup>6</sup>

More than 300,000 families – 26.7% of the population – receive money from abroad, which helps defray the cost of food, clothing and basic services. The BCR reported that between 1998 and 2008 remittances had trebled to reach nearly USD 3.8 million, most of it from the United States. Flows of remittances went up 2.5% in 2008 over 2007,

but this was a notable decline compared with 2004 when they had increased 17% over the previous year. There are signs that in 2009 and 2010 remittances will fall by around 3% of the total received so far. One of the sectors most affected by the deceleration in the United States has been the building trade, which employs a considerable proportion of the Salvadoran population resident there,<sup>7</sup> and this will have a significant impact.

### The food and fuel crisis

Privatization schemes put in place by the Government turned away from agricultural production focused on guaranteeing food security, to focus on the import of basic grains. Free trade led to inflation and a lack of purchasing power by the population due to the absence of any State regulation of the market. Estimates by the Economic Commission for Latin America and the Caribbean (ECLAC) show that for every 15% rise in food prices, there is a 2.8% increase in poverty in countries in the region. Since El Salvador has seen the greatest price increases, chances are that it has also suffered the greatest increase in poverty.

The impact of the increase in oil prices can be seen in the higher cost of the basic shopping basket, producing a rapid decrease in purchasing power and subsequent impoverishment of broad sections of the population. Since 2007 the price of food has been continuously increasing. Average inflation over the last four years was 4.9%, and in April 2008 it hit 6.8%. Cumulative inflation in this

1 Members of the organizations that make up Social Watch El Salvador are APSAL, CIDEP, CODEFAM, FUMA and MEC. Thanks to Yvette Aguilar, Ana Ella Gómez, Carolina Constanza, Jeannette Alvarado, Ana María Galdámez and Karen Martínez for their support.

2 The Mesa de Concertación para la Lucha contra la Pobreza [Coalition to Fight Poverty] (MCLCP) and Save the Children, which jointly organized a forum on the impact of the crisis on Peruvian and other Latin American children, warn about the increase in child labour in the region.

3 Weller, Jürgen. “Procesos de exclusión e inclusión laboral: la expansión del empleo del sector terciario” [Processes of occupational exclusion and inclusion: the expansion of work in the services sector]. *Macroeconomía del Desarrollo* Series, 6. Santiago, Chile: ECLAC, 2001.

4 UNDP. El empleo en uno de los pueblos más trabajadores del mundo [Employment in one of the most hardworking nations in the world]. *Report on Human Development Report in El Salvador*. San Salvador: United Nations Development Programme (UNDP), 2008.

5 *Ibid.*

6 *El Periódico*. “Economías centroamericanas reciben impacto de la crisis financiera” [Central American economies feel the impact of the financial crisis]. *El Periódico*. Mexico, 24 January, 2009.

7 UNDP. “Una mirada al nuevo nosotros: el impacto de las migraciones” [A new look at ourselves: the impact of migrations]. *Human Development Report on El Salvador*. San Salvador: UNDP, 2005.

period was 19.5%. The minimum monthly salary is between SVC 85.58 (USD 10) and SVC 183 (USD 21). In February 2008 the basic food basket (BFB) cost SVC 163 (USD 19), while the basket of goods and services, which includes all the average family's needs (food, health, education, housing, clothing), cost SVC 703 (USD 82).<sup>8</sup>

According to the 2006 National Income and Expenditure Survey, food represents some 30% of the budget in lower-income homes. In June 2008 the cost of the urban BFB increased around 22% compared to June 2007, while the rural BFB has in recent months seen increases close to 25% compared with the same period a year earlier. This seems to be leading to a rapid increase in national poverty and extreme poverty rates.<sup>9</sup>

It is worth noting that although the impact of the price increases for basic products is greater and more dramatic in lower-income homes, it is also having a considerable effect on middle-income homes. Food, electricity and transport – the three areas most affected by changes at the international level – account for around 50% of the average monthly expenditure of Salvadoran families.<sup>10</sup>

Given this situation, social and economic policies are required to stimulate national production, particularly farming. This means price regulation, productive investment, higher salaries, job creation and the intervention of the State to control flaws in the market. Food security should be at the centre of Government action.

### Inequalities heightened by the crisis

The climate crisis – higher temperatures, changes in the pattern of rainfall and greater frequency and intensity of droughts, floods, landslides and hurricane-force winds – has increased economic, gender, ethnic and other inequalities. It has also heightened existing fragilities associated with the most vulnerable population groups, such as women, children, the elderly, indigenous peoples and the rural and urban poor.

Year after year rural families lose their crops and smallholdings, which reduces their access to land and water for human consumption. As a result, their income falls and they abandon their places of origin, emigrating to major cities or abroad. The country's economic system multiplies the effects of environmental vulnerability on poor populations.

Phenomena such as deforestation, forest degradation and pollution of rivers and other water courses paved the way for abandoning rural agriculture in the face of an adverse economic climate, leading to a shortage of housing and basic services for both the rural and urban poor, thus putting them at permanent risk. Infectious and vector-transmitted diseases are on the increase.

Given the environmental situation it is estimated that the target under Goal 7 of the Millennium Development Goals (MDGs), "To reduce by half the proportion of people without sustainable access to safe drinking water and basic sanitation by 2015", will be almost impossible to achieve, like most other MDG targets. However, lack of clear, objective information on MDG indicators related to drinking water and sanitation make it difficult to gauge advances and backward steps in this field. Official statistics for the scope, quality and availability of drinking water and sanitation differ from those given by environmental institutions and fail to recognize that simply having a standpipe is no guarantee of access to good-quality water.

For example, the Multipurpose Household Survey (EHPM) reports that by 2007 the total proportion of homes with private running water was 74%,<sup>11</sup> while the National Administration of Waterways and Drainage Systems (ANDA) reports that it was 54.2%.<sup>12</sup> The EHPM gives the coverage by public fountains or standpipes as 4.2%, but ANDA reports it as 6.2%. In either case these figures are alarming and indicate the shortages in drinking water that working class areas have to put up with.

The MDG progress report prepared by UNDP in 2007 highlights advances in achieving the MDG target on water and sanitation but environmental and consumer organizations find this questionable when the Government has used provision of domestic connections, standpipes, water wells, springs and rainwater reservoirs as indicators of progress in sustainable access to improved water sources. There is no reliable information to indicate whether these resources are really protected and comply with quality standards for water fit for human consumption.

### Conclusions

Changes in the political leadership of the United States and El Salvador bring hope that a way will be found to overcome the effects of the crisis, given the close trading links between the two countries. It is imperative that a new relationship is based on autonomy, respect, equity and solidarity. The Salvadoran electoral results of March 2009, granting executive power to the democratic opposition, make possible a new direction and lay the foundations for a model of development that will rebuild agricultural and industrial capacity and generate social welfare.

Social Watch El Salvador will be playing a vigilant role on the country's new political stage from 2009 regarding compliance with Economic, Social, Cultural and Environmental Rights and MDGs, not only resulting from the change of government, but also because there is a debt owing from previous governments in this respect, already seen to have been due to the lack of any will to comply with them.<sup>13</sup> ■

8 Goitia, A. *Crisis alimentaria y crisis del modelo neoliberal en El Salvador* [Food crisis and crisis of the neoliberal model in El Salvador].

9 UNDP. "Contrarrestando el impacto de la crisis internacional sobre la economía de los hogares salvadoreños [Counteracting the impact of the international crisis on the economy of Salvadorean households]. Final Report of the UNDP Multidisciplinary Commission. San Salvador: Impresos Múltiples S.A. de C.V., 2008.

10 Goitia, A., *op. cit.*

11 Ministry of the Economy. *2007 Multipurpose Household Survey*. San Salvador: General Directorate of Statistics and Censuses.

12 ANDA. *Report on National Coverage of Drinking Water and Sanitation 2003-2007*. San Salvador: Administración Nacional de Acueductos y Alcantarillados (ANDA), 2007.

13 "Economic and social rights: there is no political will". *Social Watch Report 2008*. El Salvador.