

2 RATIONALE

2.1 General Context

Already before the pandemic El Salvador had been struggling with low levels of economic growth, as well as social and governance challenges. The election of President Nayib Bukele in 2019 represented a break with the previous political establishment of two political parties that fought during the civil war and signed the peace agreement (1980-1992). President Bukele continues to enjoy strong support; in the 2021 legislative elections the President's party, Nuevas Ideas, and its allies, won an outright majority in the Legislative Assembly. It is expected that this majority will facilitate the implementation of government policies and long-term objectives related to the post-COVID recovery. Nevertheless, as outlined in the latest RMF (July 2021), the administration's lack of transparency, confrontational approach and authoritative drift have raised concerns among opposition politicians and civil society organizations about the actual separation of powers (1.2(8) was increased from "moderate" to "substantial" in RMF) and the centralization of decision-making in the Executive and the increasing use of the military for security functions which should rest with the National Civil Police.. The new Assembly has reinforced these concerns when it dismissed all magistrates of the Constitutional Court and the Attorney General in its first session. The government's renunciation on its agreement with CICIES, limitation of the judiciary's independence and increasing lack of transparency have led to an increase in the corruption and fraud risks ((5.1) from "moderate" to "substantial").

Fighting organized crime is a government priority, and it has been successful in curving the homicide rate in 2020 to 3.4 homicides per 100 000 inhabitants (6.6 in 2019, 9.2 in 2018, 10.8 in 2017), and during the COVID- 19 lockdowns homicide rates have further declined to all-time lows. However, figures remain high and increasing reports of feminicides and violence against women and minority groups remain a cause for concern. Furthermore, disappearances have been increasing and allegations of abuse by security forces have been increasing.

Lack of opportunities and violence push Salvadorans, in particularly youth, towards migration. El Salvador is a principal source of migrants to the United States; around 2 Mio Salvadorans are estimated to be in the US, and remittances account for around 20% of GDP. Relations between El Salvador and the USA are particularly marked by this issue, and the government's focus has been on trying to address the root causes of migration in terms of providing security and economic opportunities, although lack of transparency and clear policy direction risks undermining the main commitments in this regard.

Gender inequality and violence against women remain very high, and have deteriorated during the pandemic: women, who suffer higher levels of underemployment and marginalization in the labour market, have been strongly affected by the reduced economic activities during lockdowns. There are also reports of increasing levels of Sexual and Gender Based Violence (SGBV). Civil society organizations have criticised a lack of gender perspective in government policies to address the impact of COVID-19 on women and girls. Violence by security forces and gangs continues to affect disproportionately the LGBTI community and its activists. In rural areas, internal displacement due to violence, threats, climate change impacts and loss of land rights remains an issue, especially for the indigenous populations.

Fiscal space remains limited. Low tax revenues (18.1% of GDP) have limited Government's capacity to stimulate growth. The sustained fiscal deficit (3-4% of GDP over the last 7 years) has led to a substantial increase in public debt (from 39.7% of GDP in 2008, to 69.1% in 2017, 70.3% in 2019 and it is estimated that in 2021 it will reach more of 88% of the country's GDP). Concerns about high debt levels have been heightened during the COVID-19 crisis, where additional loans to combat the crisis mean that debt levels may increase to up to 90% of GDP and sharpens the risk of default (and remain "substantial"). The Fiscal Responsibility Law remains suspended due to the crisis, but its aim remains to achieve a sustainable debt level in 2030. However, the RMF (July 2021) identifies a possible agreement with the IMF as a core condition for macro-economic and financial stability (2.1), a risk that remains "moderate". The recent approval of Bitcoin as national currency alongside the USD has called international attention, but its effect on the economy remains a source of controversy.

The COVID-19 crisis has led to further concerns about budget comprehensiveness, identified as "substantial" risks in the RMF (4.1). The lack of solid control mechanisms has been significant: limited controls on procurement and investment planning have meant that risks related to Control in budget execution (4.2) remain substantial, while risks related to public procurement and investment (4.3) and audit (4.4) have been increased to "high" following the erosion of the authority of the Court of Auditors and the passing of a law relating to retroactively regulate public purchases made during the COVID emergency.

The digital divide in El Salvador is deepening, both across and within regions, as well as deepening the gender gap in the country. Low connectivity, limited penetration of digital infrastructure and low level of digital skills and gender gap are problems that have deepened with the COVID crisis, which has highlighted the importance of affordable access to digital services. The gaps in connectivity and access to digital services have prevented the most vulnerable population (low-income households and inhabitants of rural areas) from making use of digital opportunities, as well